The Economist

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Politics this week

Dec 11th 2008
From The Economist print edition

EPA



The UN said that nearly 800 people had died of cholera in **Zimbabwe**; suspected cases rose to over 15,000. South African officials said part of their border with Zimbabwe was subsequently a "disaster area". Zimbabwe's government continued to hound human-rights and opposition campaigners, 18 of whom have gone missing since October. See article

In a so-far-peaceful presidential election in **Ghana** the candidate of the ruling party, Nana Akufo-Addo, got just over 49% of the vote, while his rival, John Atta Mills of the main opposition party, got nearly 48%. A run-off will take place on December 28th. See article

In **South Africa** a breakaway faction of the ruling African National Congress, facing its first test at the polls, won many seats in by-elections for local councils across the country. See article

Israel's outgoing prime minister, Ehud Olmert, described recent attacks by Jewish settlers on Palestinians in and around the West Bank city of Hebron as a "pogrom", after Israeli security forces forcibly removed militant settlers from a disputed house in the city. See article

So long, Dion

Michael Ignatieff, a former writer, took over as leader of **Canada's** opposition Liberals from Stéphane Dion. Mr Dion had hoped to oust Stephen Harper's Conservative minority government by forming a centre-left coalition; Mr Harper dodged that by securing a short suspension of Parliament. Mr Ignatieff is cooler towards the coalition plan. See article

In a provincial election in **Quebec**, Jean Charest, the Liberal premier, won a majority and a third term, but the separatist Parti Québécois did better than predicted.

Mexico's Congress approved a bill to rationalise police powers, allowing undercover agents and wiretap evidence but also requiring officers to register all arrests more quickly. The government is trying to strengthen the police in the face of violence from drug gangs in which nearly 5,400 people have died this year.

In **Argentina**, forensic anthropologists confirmed that more than 10,000 bone fragments found inside a former detention centre were human remains. At least 10,000 people disappeared at the hand of a military dictatorship in the late 1970s and early 1980s as part of a "dirty war" against leftist guerrillas.

Golden opportunities

AP



Federal prosecutors arrested the Democratic governor of Illinois for corruption. **Rod Blagojevich** was charged, among other things, with trying to "sell" the Senate seat vacated by Barack Obama on his presidential win. The United States attorney leading the investigation stressed that Mr Obama was not involved. See article

The events in Illinois were an unwelcome distraction for Mr Obama, who earlier provided details about his plans for a **public-works programme**, describing it as the largest new investment since road-building projects in the 1950s. See article

Eric Shinseki was nominated to be secretary for veterans' affairs in the Obama administration. As army chief of staff in 2003, General Shinseki gave prescient testimony to Congress that more troops would be required to stabilise Iraq, leading to a public falling-out with the then defence secretary, Donald Rumsfeld.

At a pre-trial hearing in Guantánamo, **Khalid Sheikh Mohammed**, the self-confessed mastermind behind the September 11th 2001 terrorist attacks, and four co-defendants said they wanted to plead guilty. They were told that doing so could mean they would not be sentenced to death, an outcome they ardently desire. See article

The Republicans won a special election for a **New Orleans** seat in the House of Representatives. The nine-term Democratic incumbent, William Jefferson, had become ensnared in a bribery investigation; $90,000 in cash was found in his freezer. The district's new representative will be Anh "Joseph" Cao, the first Vietnamese-American to serve in Congress. See article

A military jet on a training mission from the *USS Abraham Lincoln* crashed into a **San Diego** neighbourhood, killing four people on the ground. The pilot ejected to safety.

China sneezes

In **China**, year-on-year exports fell by 2% in November, with imports down by 18%. The shocking data suggest an unprecedented slowdown—between 2000 and 2006 Chinese exports grew at an annual average rate of 26%. See article

Partly thanks to China's slowdown, **Japan's** economy shrank at an annualised 1.8% in the three months to September, worse than expected. The popularity of Taro Aso, prime minister since September, continued to slide, as doubts about his future grew.

China celebrated the 60th anniversary of the United Nations **Declaration of Human Rights** by arresting dozens of peaceful protesters. See article

In the latest struggle between followers and opponents of ousted prime minister, Thaksin Shinawatra, **Thailand's** opposition claimed to have the support of enough members of parliament to form a new anti-Thaksin government when parliament convenes for a special session.

Pakistan arrested a score of Islamist militants, including two members of the banned Lashkar-e-Taiba. One of them is said by India to be the mastermind behind the recent terrorist attack on Mumbai. See article

Riot polis

AFP



An orgy of riots broke out across **Greece** after a policeman shot a teenager dead in Athens. The government wobbled, the opposition called for a new election and the trade unions staged a general strike. See article

European Union leaders gathered in Brussels for the final summit of France's six-month stint in the EU presidency. President Nicolas Sarkozy hoped to secure last-ditch deals on climate change and economic stimulus measures, plus an Irish promise to hold a second referendum next year on the Lisbon treaty.

Vandals desecrated some 500 graves of Muslim war veterans in **northern France**. Mr Sarkozy called it "the expression of a repugnant racism".

Ukraine's pro-Western "orange" coalition government, which collapsed in September, was re-formed in a different guise, averting a possible general election. The Ukrainian economy is tottering and the country is borrowing $16 billion from the IMF.

Business this week

Dec 11th 2008
From The Economist print edition

America's House of Representatives voted to bail out two of **Detroit's carmakers**. The legislation proposes extending emergency short-term loans to cash-strapped General Motors and Chrysler. During negotiations the White House insisted that the companies be required to make drastic changes to their operations and reduce costs by next spring, or risk losing access to the public funding; there will be a "car tsar". Some Republican senators threatened to delay, or possibly kill, the bill. See article

Volkswagen made public its application for help from Germany's €500 billion ($650 billion) bank bail-out programme. The carmaker's affiliated bank and financial-services units both want state loan guarantees.

Red all over the world

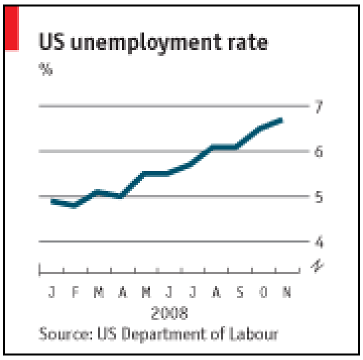
Tribune filed for bankruptcy protection. The company, which publishes the *Los Angeles Times*, the *Chicago Tribune* and other big-city newspapers, was bought by Sam Zell, a property mogul, last year and is saddled with some $13 billion in debt. See article

The *New York Times* said its parent company might raise up to $225m against the value of the newspaper's new headquarters. In common with most of its rivals, the "Gray Lady" is reeling from a sharp decline in advertising revenues and readers.

Merrill Lynch said John Thain had "requested that he receive no bonus" this year for his work as chairman and chief executive. Earlier, New York state's attorney-general, who is investigating executive-compensation practices, had written to the company and thundered that he found it "nothing less than shocking" that Mr Thain was said to be seeking a $10m bonus. Merrill Lynch was forced to sell itself to Bank of America during Wall Street's meltdown in September. **Morgan Stanley** promptly announced that its chief executive, John Mack, would also get no bonus for 2008.

Yields on three-month Treasuries fell, at one point reaching -0.01%, a stark indication of investors' continued wariness of risk. Speculation increased that the **Federal Reserve** might make further unconventional interventions to push down long-term borrowing costs. The central bank's Federal Open Market Committee is due to meet on December 15th and 16th.

A blue Christmas



Source: US Department of Labour

Payroll **employment** in America fell by 533,000 in November, the biggest monthly drop since December 1974. The unemployment rate crept up to 6.7%. A broader government measure of joblessness, which includes people who want a job but have given up looking for work, rose to 12.5%.

Sony laid out another cost-cutting strategy, in which it will shed at least 16,000 permanent and temporary jobs, pull back on investments and outsource some production. The Japanese consumer-electronics company, along with its Asian rivals, is suffering from the global economic downturn. It has already halved its annual profit forecast amid falling demand for its Bravia LCD televisions.

Rio Tinto also unveiled a plan to rein in costs. The Anglo-Australian mining company, which spent most of this year resisting a takeover bid from BHP Billiton, is reducing its capital expenditure and selling assets to pay down $10 billion in debt by the end of next year. It will cut 14,000 jobs. See article

Other companies announcing big rounds of **job cuts** this week included **Dow Chemical**, which is losing 5,000 employees and closing 20 plants in America and Europe; **3M**, where 2,300 positions will go; and **Anheuser-Busch InBev**, which is axing 6% of its American workforce. Three-quarters of the job losses

at the brewer, the product of a big recent merger, will fall on St Louis. Some 30,000 jobs were at risk at Britain's **Woolworths** as the retail chain, which is in administration, rolled out a closure plan.

Libya expressed an interest in taking a stake of up to 10% in **Eni**. The Italian oil and gas company is the largest and longest established foreign oil company in Libya, which has sought new international investments over the past two years after a thaw in its relations with the West.

Those were the days, my friend

The buy-out of **BCE** was finally terminated after auditors ascertained the transaction would make Bell Canada's parent company insolvent. It was first announced in June 2007, at the tail-end of a **private-equity** boom and at about the time that the credit crunch started. The deal was worth around C$50 billion ($40 billion).

Playboy advertised for a new chief executive when Christie Hefner said she was stepping down. Ms Hefner, the daughter of the magazine's founder, Hugh Hefner, wants to leave the world of adult entertainment to become involved in public service.

KAL's cartoon

Dec 11th 2008
From The Economist print edition

Illustration by KAL



China and India

Suddenly vulnerable

Dec 11th 2008
From The Economist print edition

Asia's two big beasts are shivering. India's economy is weaker, but China's leaders have more to fear



THE speed with which clouds of economic gloom and even despair have gathered over the global economy has been startling everywhere. But the change has been especially sudden in the world's two most populous countries: China and India. Until quite recently, the world's fastest-growing big economies both felt themselves largely immune from the contagion afflicting the rich world. Optimists even hoped that these huge emerging markets might provide the engines that could pull the world out of recession. Now some fear the reverse: that the global downturn is going to drag China and India down with it, bringing massive unemployment to two countries that are, for all their success, still poor—India is home to some two-fifths of the world's malnourished children.

The pessimism may be overdone. These are still the most dynamic parts of the world economy. But both countries face daunting economic and political difficulties. In India's case, its newly positive self-image has suffered a double blow: from the economic buffeting, and from the bullets of the terrorists who attacked Mumbai last month. As our special report makes clear, India's recent self-confidence had two roots. One was a sustained spurt in economic growth to a five-year annual average of 8.8%. The other was the concomitant rise in India's global stature and influence. No longer, its politicians gloated, was India "hyphenated" with Pakistan as one half of a potential nuclear maelstrom. Rather it had become part of "Chindia"—a fast-growing success story.

The Mumbai attacks, blamed on terrorist groups based in Pakistan and bringing calls for punitive military action, have revived fears of regional conflict. A hyphen has reappeared over India's western border, just as the scale of the economic setback hitting India is becoming apparent. Exports in October fell by 12% compared with the same month last year; hundreds of small textile firms have gone out of business; even some of the stars of Indian manufacturing of recent years, in the automotive industry, have suspended production. The central bank has revised its estimate of economic growth this year downwards, to 7.5-8%, which is still optimistic. Next year the rate may well fall to 5.5% or less, the lowest since 2002.

Still faster after all these years

If China's growth rate were to fall to that level, it would be regarded as a disaster at home and abroad.

The country is this month celebrating the 30th anniversary of the event seen as marking the launch of its policies of "reform and opening", since when its economy has grown at an annual average of 9.8%. The event was a meeting of the Communist Party's Central Committee at which Deng Xiaoping gained control. Tentatively at first but with greater radicalism in the 1990s, the party dismantled most of the monolithic Maoist edifice—parcelling out collective farmland, sucking in vast amounts of foreign investment and allowing private enterprise to thrive. The anniversary may be a bogus milestone, but it is easy to understand why the party should want to trumpet the achievements of the past 30 years (see article). They have witnessed the most astonishing economic transformation in human history. In a country that is home to one-fifth of humanity some 200m people have been lifted out of poverty.

Yet in China, too, the present downturn is jangling nerves. The country is a statistical haze, but the trade figures for last month—with exports 2% lower than in November 2007 and imports 18% down—were shocking. Power generation, generally a reliable number, fell by 7%. Even though the World Bank and other forecasters still expect China's GDP to grow by 7.5% in 2009, that is below the 8% level regarded, almost superstitiously, as essential if huge social dislocation is to be avoided. Just this month a senior party researcher gave warning of what he called, in party-speak, "a reactive situation of mass-scale social turmoil". Indeed, demonstrations and protests, always common in China, are proliferating, as laid-off factory-workers join dispossessed farmers, environmental campaigners and victims of police harassment in taking to the streets.

The gap between mouth and trouser

One worry is that China's rulers will try to push the yuan down to help exporters. That would be a terrible idea, not least because the government has the resources to ease the pain in less dangerous ways: it is running a budget surplus and has little debt. Last month it announced a huge 4 trillion yuan (nearly $600 billion) fiscal-stimulus package. Some who have crunched the numbers argue that this was all mouth and no trousers—much of it made up by old budget commitments, double-counting and empty promises. It was thus mainly propaganda, to convince China's own people and the outside world that the government was serious about stimulating demand at home. That may yet prove to be unfair: what matters is when infrastructure money is spent, not when it is announced. Yet there is little sign that the regime is ready to take radical steps in the two areas that would do most to persuade the rural majority to spend its money rather than hoard it: giving farmers better rights over their land; and providing a decent social safety-net, especially in health care.

Still, China does at least have trousers, with deep pockets. India, in contrast, is not seen as a big potential part of the answer to the world's economic problems. Not only is its economy far smaller; its government's finances are also a mess. Its budget deficit—some 8% of GDP—inhibits it from offering a bigger stimulus that might mitigate the downturn (see article). This is alarming. If China reckons it needs 8% annual growth to provide jobs for the 7m or so new members of its workforce each year, how is India to cope? A younger country, its workforce is increasing by about 14m a year—ie, about one-quarter of the world's new workers. And, perversely, its great successes of recent years have been in industries that rely not on vast supplies of cheap labour but on smaller numbers of highly educated engineers—such as its computer-services businesses and capital-intensive manufacturing.

In two respects, however, India has a big advantage over China in coping with an economic slowdown. It has all-too extensive experience in it; and it has a political system that can cope with disgruntlement without suffering existential doubts. India pays an economic price for its democracy. Decision-making is cumbersome. And as in China, unrest and even insurgency are widespread. But the political system has a resilience and flexibility that China's own leaders, it seems, believe they lack. They are worrying about how to cope with protests. India's have their eyes on a looming election.

It used to be a platitude of Western—and Marxist—analysis of China that wrenching economic change would demand political reform. Yet China's economy boomed with little sign of any serious political liberalisation to match the economic free-for-all. The cliché fell into disuse. Indeed, many, even in democratic bastions such as India, began to fall for the Chinese Communist Party's argument that dictatorship was good for growth, whereas Indian democracy was a luxury paid for by the poor, in the indefinite extension of their poverty.

But as China enters a trying year of anniversaries—the 50th of the suppression of an uprising in Tibet; the 20th of the quashing of the Tiananmen Square protests; the 60th of the founding of the People's Republic itself—it may be worth remembering that the winter of 1978-79 saw not only a party Central Committee plenum but also the "Democracy Wall" movement in Beijing. It was a brief flowering of the

freedom of expression, quite remarkable after the xenophobic isolation of the Cultural Revolution. Deng, like Mao Zedong before him, tolerated the dissident movement as long as it served his ends, and then stamped it out. In so doing he thwarted what Wei Jingsheng, the most famous of the wall-writers, had dubbed "the fifth modernisation": democracy. China still needs it.

Public works

Filling the hole

Dec 11th 2008
From The Economist print edition

Barack Obama's latest solution to America's economic crisis will need some careful oversight

AP



AS AMERICA'S recession continues to deepen, one mercy is that there is no longer any serious debate that a fiscal stimulus is required to fill the hole left by the collapse of private demand. As American firms and households cut back and the Federal Reserve runs out of room to cut interest rates, the case for the government stepping in has become unanswerable.

No one knows exactly how much Barack Obama will seek from Congress when he is sworn in on January 20th, at the end of a debilitatingly long transition period. But comments from those close to him suggest a figure of anywhere from $500 billion to $700 billion over the next two years. And that figure could easily rise. Estimates suggest that the economy may now be contracting at an annualised rate of more than 5%, so when the fourth-quarter figures emerge in late January, the calls for even more dramatic action will get louder. The November employment figures showed the largest monthly drop for 34 years, with more than half-a-million jobs shed.

If the scale of the downturn calls for bold stimulus, the speed at which the economy is deteriorating calls for haste. How, though, to spend that money to best effect? This week's argument—whether to pump $14 billion into GM and Chrysler in the hope of keeping the car firms out of bankruptcy till March (see article)—was not exactly promising. But it is a sideshow—a way to save jobs (and votes), not restart the economy.

Tax rebates or tax cuts will get more money into consumers' hands quickly, but in today's environment much of that boost will simply be saved, as people plug the holes in their finances left by the collapsing values of their houses and retirement portfolios, or just pay off debts. If consumers are unwilling to spend, the best way for a government to boost demand is to spend more itself. One approach is to send large dollops of federal cash directly to America's struggling states: unlike the federal governments, these are not allowed to run deficits, so when their revenues decline, they are forced to lay off workers and cut back on services. This reinforces the downswing in the economic cycle rather than countering it. By increasing its share of joint spending schemes, such as Medicaid, the federal government can counter that decline. But the scale of stimulus that is required calls for more.

On December 6th Mr Obama came out with a bolder idea. He proposed "the single largest new investment in our national infrastructure since the creation of the federal highway system in the 1950s". In principle, this makes sense. As Keynes remarked, it is of benefit at a time of unemployment to spend money on "digging holes in the ground". It creates demands for shovels and overalls, and puts money into the pockets of the diggers. Ideally, though, public money should be spent on something better than holes. Mr Obama is right to note that many of America's roads and bridges are a disgrace, and right

again to say that the country that invented the internet should not be 15th in the world in terms of broadband penetration. Done correctly, a big public-works programme can do two valuable things at once: deliver a useful stimulus and at the same time boost the economy’s long-run rate of growth.

Quick and easy is not the same as good

The danger comes when these two objectives conflict. Given that stimulus is likely to be regarded as the primary aim, a premium will tend to be placed on actions that yield the most rapid results. America’s governors are already falling over each other to submit their lists of “shovel-ready” projects to Washington, DC. But quick and easy is not necessarily good.

The federal government is not good at discriminating between infrastructure schemes. Too much cash has gone into encouraging sprawl or keeping senators from small states happy with showy projects; too little into building things that are harder to get approved but encourage economic growth or control congestion, such as light railways or road-rail freight systems. Obviously each project should be measured on its merits. But a good broad test will be where the money goes. The 100 biggest metropolitan areas account for 65% of America’s population and 75% of its output. That is where the infrastructure is needed. But if “bridges to nowhere” start springing up in the boondocks, it will probably be money wasted.

Greece's riots

When nettles go ungrasped

Dec 11th 2008
From The Economist print edition

Wanted: a Periclean figure with enough courage to tackle the deeper causes of Greece's mayhem

AFP



THERE is something weird and frightening about the sight of a modestly prosperous European country—assumed by most outsiders to have recovered from its rocky history of coups and civil strife—that is suddenly gripped by an urban uprising that the authorities cannot contain. Greece's travails seem all the odder after a recent economic record which, to judge by the basic numbers alone, looks tolerably good.

Could this take place in any seemingly stable democracy, or does the land of democracy's birth have special features? Well, the incident that sparked Greece's mayhem—the killing by police of a teenager—could have happened almost anywhere. And there are many cities where an angry minority is ready to run amok: think of Budapest in 2006 or Paris in 2005.

But in the Greek case a spasm of rage among youngsters and the bohemian underworld has laid bare a deeper seam of discontent: with corruption, maladministration and the sheer frustration of life at the bottom of the Athenian pile (see article). There are some proximate causes, including fury over scandals (one involving a famous monastery) that seem egregious even to a nation that reveres the church and often winks at petty larceny. But far more important are problems that no Greek government has tackled. To find out what they are, ask any of the Greek-born scholars, entrepreneurs, artists and other talented types who flourish all over the world but recoil at working in their homeland, much as they love it.

As any homesick Hellene can tell you, their country can be a maddening place for people with drive and flair. The world's universities are full of Greek academics, but the country's own campuses are dogged by poor administration, strikes and a state monopoly on higher education. In its university system Greece hews closer to the worst aspects of the Ottoman past (such as bureaucracies that block innovation) than does Turkey, with its fine range of public and private campuses.

In health, schooling and other public services, bad state provision fuels a huge under-the-counter market—creating in turn vested interests opposed to any change. Life is tough for youngsters with energy and talent but no cash or connections. To get anywhere, they spend all day in rotten state classrooms, then trek off to private night schools where the same teachers do a slightly better job in return for money. Anybody who negotiates those hurdles must then face a dismal job market—either a dreary, dysfunctional public sector or a private sector crimped by crooked tax inspectors and crazed regulators. Of course, none of this excuses the riots. Indeed, many of the policies (such as reinforcing the ban on private education) that are advocated by self-appointed representatives of Greece's angry young people would make their problems worse.

Serious as they are, many chronic woes have been masked, to some extent, by easy money: European Union subsidies, a boom in shipping, construction for the 2004 Olympics. With the world recession, the mask is coming off, and Greece's politicians face a dilemma. Either they take on the vested interests that snarl things up, or the country risks forfeiting much of the economic and social progress that it has made.

Freedom depends on being courageous

To Greece's rulers, the line of least resistance is often to do nothing, turning a blind eye to police corruption, or letting public servants pad out their salaries by taking money on the side. But the cost of letting problems fester is now even greater than the cost of curing them. Very soon one of Greece's hard-pressed politicians—whether from the centre-right that now holds power, or the centre-left that leads in the opinion polls—will have to turn into a statesman.

Zimbabwe

Please do something—but what?

Dec 11th 2008
From The Economist print edition

Africans, Europeans and Americans must together rescue a dying country

EPA



THE Zimbabwe crisis has reached a new level that is both hideous and, paradoxically, hopeful. The hideous part is that people are dying—indeed, Zimbabwe as a country is dying—at an even faster rate than before, as cholera sweeps across the country. Mass hunger looms: the UN's World Food Programme reckons that, in the new year, it must provide food for 5.5m in a population that has shrunk, through disease and emigration, from about 12m probably to less than 9m.

Despite a power-sharing deal that Robert Mugabe signed in mid-September with the leader of the opposition, Morgan Tsvangirai, who defied the stacked odds to win both a general election and the first round of a presidential one in March, government violence continues apace. Mr Mugabe shows no sign of wanting to compromise. Even in the past fortnight, leading human-rights campaigners and people prominent in Mr Tsvangirai's party have been abducted. The local currency is worthless, so swathes of public services have ceased to function. Zimbabweans have been reduced to subsistence (some survive on roots and berries), barter, and remittances and handouts from abroad. A true humanitarian disaster beckons.

The hopeful angle in this horror is that cracks are widening both in Mr Mugabe's regime and among his backers elsewhere in Africa. Riots by unpaid junior soldiers have yet to spread to the middle ranks but may do so. South Africa and the Southern African Development Community, the 15-country regional club, continue to wobble and waffle, with South Africa's ousted president, Thabo Mbeki, as feeble as ever in his mandated role as mediator. But the spread of cholera across the Limpopo river into South Africa has intensified the debate there. Talk in high places about removing Mr Mugabe, perhaps even by force, is no longer deemed outlandish. Archbishop Desmond Tutu, an icon of the anti-apartheid movement, has called for just that. Voices elsewhere in Africa, such as those of Botswana's president, Ian Khama, and Kenya's prime minister, Raila Odinga, have become louder in calling for Mr Mugabe's demise. Botswana's foreign minister wants sanctions against Zimbabwe to include stopping oil supplies.

In July a UN Security Council resolution to impose targeted sanctions (travel bans and asset freezes) against Mr Mugabe and his acolytes was blocked by China and Russia, with South Africa also dissenting, on the ground that Zimbabwe posed no threat to international stability. The blocking duo can hardly still argue that case with a straight face. Moreover, Zimbabwe is close to meeting the criteria for invoking the declaration endorsed at the UN in 2005 that there is an international "responsibility to protect" people facing, among other things, crimes against humanity. A group of peacemakers known as "the Elders", including Jimmy Carter, a former American president, and Kofi Annan, the UN's former head, having been refused entry into Zimbabwe, may help to push the issue up the UN's agenda. Though Mr Mugabe would try to resist such a move, Mr Annan is quietly standing by to assume the mediator's job in place of Mr Mbeki, an appointment devoutly to be wished.

Calling for military intervention before wider sanctions have been applied is premature, even though it may come to force in the end. And economic sanctions are themselves a blunt instrument that sometimes harm the people more than the rulers. Stopping oil supplies may have just that effect. But UN sanctions focused tightly on Mr Mugabe and his coterie, and supported by South Africa, could have a big impact. The leader of South Africa's ruling party, Jacob Zuma, likely to be the country's president next year, must surely respond to the crescendo of outrage. The power-sharing deal is being overtaken by events. Mr Tsvangirai is right to reject the one-sided conditions under which Mr Mugabe says he will implement it. As cholera and refugees threaten to destabilise South Africa itself, its rulers must start to consider drastic measures to rescue the benighted country that Zimbabwe has now become.

Economist.com OPINION LEADERS

Primary education

In praise of facts

Dec 11th 2008
From The Economist print edition

The British government's latest crack at reforming schools is yet another step towards contentless learning

Illustration by David Simonds



"NOW, what I want is, Facts. Teach these boys and girls nothing but Facts. Facts alone are wanted in life." How horrible for the pupils at Professor Gradgrind's school; Charles Dickens pulled out all the grim stops in describing it. No one today really thinks that school, especially in the early years, should consist of nothing but dreary rote learning.

But children do love learning real things—why trees have leaves, how two minuses make a plus, the number of wives' heads Henry VIII removed. Only if they begin to build up a core of knowledge can they develop the habits of mental discipline that must last them a lifetime. You cannot look up on Google something you do not know exists; and the ability to hold facts in your head is a prerequisite for many careers—the law, say, or engineering. It is not enough in primary school to learn about learning; children need to learn actual stuff.

So it is a particular disappointment that the interim version of the biggest review of British primary schooling in decades nudges the country a little further down its path toward factfree education (see article). The existing curriculum is not without its faults: repeatedly re-engineered since it was set in place 20 years ago, it is now cluttered and prescriptive. And Sir Jim Rose, once Britain's chief inspector of primary schools, was dealt some marked cards for his review: computer skills had to be ranked alongside literacy and numeracy (though employers complain not that young job-seekers are clueless online but that they are illiterate); room had to be made to teach a modern foreign language (thank heavens); and a gaggle of personal-development goals (learning not to set fire to your friends or trash the classroom) were to be emphasised.

The report suggests that everything be mashed into six "learning areas". The titles alone appal. History will be part of "human, social and environmental understanding", where it will compete for airtime with geography and, no doubt, global warming (is it any wonder that Gordon Brown has to scrabble about for a recognisable definition of national identity?). Britain's increasingly fat children will presumably cut back what limited running around the playground they do now and sit, rapt, through lessons in "understanding physical health and well-being" (rumoured to include "happiness" lessons too).

Sad but true

Sir Jim is no fool, and he talks the talk better than most. There is to be "challenging" subject teaching as

well as “equally challenging” cross-curricular study, the report insists; nothing will be lost. This is disingenuous. Maths looks safe; and reading and writing reasonably so (although English has to share its “understanding” area with other languages). But other hard, fact-filled subjects—history, geography and so on—will be compressed to make room for the sloppy, politically correct mush.

So, children, here are some crunchy facts. Spending on education has more than doubled in a decade, but standards have stalled as New Labour has conspired with its friends in the teachers’ unions to dumb down exams and meet performance targets. One in five pupils still leaves primary school unable to read and write effectively. Britain is sliding down the world’s literacy league tables (it does better at maths, which thankfully remains ringfenced). You cannot teach children everything. But that is no excuse for teaching them nothing much at all.

On Thailand, Guantánamo, executive pay, science, piracy, Finnish banks, the Obama administration

Dec 11th 2008
From The Economist print edition

Thailand's monarchy

SIR – I was deeply dismayed at the narrow view and condescending attitude displayed by *The Economist* towards Thailand's monarchy ("The king and them", "A right royal mess", December 6th). In trying to justify presupposed contentions, your articles gave credence to one book about the king written by an American journalist. You interpreted recent events to suit that author's conspiracy-prone speculations, and discarded evidence to the contrary. More importantly, you ignored the fact that the bond between the Thai people and their monarchy is deeply rooted in the kingdom's long history.

Throughout his reign, the king has clearly demonstrated that he is above politics, strictly adhering to the roles prescribed to the monarchy by law and remaining politically neutral. He has made few interventions, and then only to prevent bloodshed among Thais. In spring 2006 some people called for a royally conferred government. The king refused and told an assembly of judges that political problems must be resolved democratically and through constitutional means. Had he no faith in democracy he could have said otherwise and Thais would have obliged him. There is no need for any behind-the-scenes intrigue. The affection and reverence that Thais feel towards the king is genuine and shown voluntarily. But because of this some groups have sought to claim royal support or interpret his actions or silence for their own political ends.

In 2005 the king made it plain that he is not beyond criticism. However, his position does not allow him to respond to any claims of support made by political groups or allegations against him, which is the rationale behind the so-called *lèse-majesté* law to protect the king. In Thailand, as in other democracies, laws are enacted by parliamentarians who respond to the will of the people they represent. By neglecting these facts and their simple logic, your articles therefore made blatantly wrong accusations regarding the king of Thailand and inexcusably offended the Thai people.

Tharit Charungvat
Director-general
Department of Information
Bangkok

SIR – You apparently believe that the king and his royalist supporters have wrecked Thailand. Much of the argument for this was presented as if it were a great secret that has been kept from the Thai people for so long that it clearly must be true. What you neglected to do is investigate the role that Thailand's political leaders, with their cronies and their corrupt activities, played in the 1997 Asian financial meltdown. You failed to make any connection between that event and the current political crisis, or to address any of the oft-stated concerns that Thais have about the effects of corruption on their economy, democracy and the rule of law. In sum, you focused on what might be relevant to foreign observers and not on issues that concern the Thai people.

Jonathan Peter
Pathum Thani, Thailand

SIR – I agree that "it cannot be good for a country to subscribe to a fairy-tale version of its own history". I would point out that this malaise afflicts not only Thailand but most, if not all, countries. I also agree that the "archaic" *lèse-majesté* laws in Thailand need to be abolished. I hold a similar view regarding Britain's equally archaic laws, which prevent elected members of Parliament from taking their seats if they refuse to make an oath of allegiance to the monarch.

Jose Lopez
London

Over there

SIR – *The Economist* has whined for years about Guantánamo and mauled George Bush for detaining terrorists outside America's judicial system. Yet you realise that our president wanted to close the camp but could not ("Subject: Guantánamo", November 22nd). Moreover, you provided no answer for Barack Obama as to what to do with the remaining prisoners. I noticed that you gave the option of releasing "most" of them in the United States. Why not release them in Britain or France? We did our part and took them out of circulation. Why doesn't Europe do its part to contain them?

Andy Wood
Bedford, Massachusetts

More is less

SIR – If politicians want bankers to pay themselves less surely they're going about it the wrong way ("Payback", November 22nd). Governments feel obliged to nationalise the losses of financial institutions only when they have become "too big to be allowed to fail". The answer must be to keep banks small enough that they can be allowed to fail with impunity, with governments simply protecting the deposits of savers. Knowing there is no safety net would also discourage excessive risk-taking. An increased cautious environment would cut the level of profits, thus reducing bonuses.

By contrast, encouraging banks to become even bigger as an alternative to nationalisation—Lloyds TSB takes over HBOS, JPMorgan buys the assets of Washington Mutual—means that the survivors, if they ever get into trouble, will have to be rescued by their governments too.

Adrian Robson
London

SIR – I have no issue with group profit-share, which improves teamwork and commitment. It is individual target-based bonuses that time and again produce disasters. Research shows that individualised rewards tend to reduce intrinsic motivation. In one experiment students who were happily working on brainteasers were given a dollar for each one they solved. When their pay was withdrawn they stopped doing the puzzles. We see many examples of people, who are motivated by the job, working incredibly effectively for low pay. However, there clearly are certain jobs where we have to pay people to do a task, and then pay them again to do it properly.

Bob Walder
London

Scientific news

SIR – Your article on the suppression of "unfavourable information" about drug trials implied that academic journals have some sort of duty to publish negative results for the public good ("Absence of evidence", November 29th). Journals are just like any other business: they want to publish the best and will toot their horn if they publish important stuff. For synonyms of "important" read "positive", or "major advance". Negative results don't cut it, and so, even if submitted, such papers will rarely get accepted by reviewers and editors. For middling-quality studies in my field, even interesting positive ones, it is far from unusual to have to try two or three different journals to get a paper into print.

Jolyon Jesty
Professor of medicine and pathology
Stony Brook University
Stony Brook, New York

Deadly, and effective, force

SIR – With piracy off the Horn of Africa out of bounds ("The lawless Horn", November 22nd) why has no

one suggested the use of Q-ships? These disguised but heavily armed merchant ships could teach the pirates a thing or two when they unexpectedly reveal their array of cannon and machine-guns. I think the time is right for such a lesson.

Ed Wilt
McHenry, Illinois

Bankers' watering hole

SIR – You supported the idea of creating special-purpose "bad banks" to take toxic assets off the balance sheets of ailing financial institutions ("Stockholm syndrome", November 29th). This model was also prevalent during the Finnish banking crisis in the early 1990s, and at a high cost: it took a decade to wind down the last of these banks.

Finns expressed their attitude towards the new institutions by coining the term *roskapankki* or "garbage bank". A seedy pub with that moniker has outlived its namesakes in the Helsinki district of Kallio, its ceilings plastered with pictures of old markka banknotes.

Antti Knuutila
Helsinki

Team Obama

SIR – I read your gushing endorsement of the academics chosen by Barack Obama to lead his economic team with some amusement ("Off to work they go", November 29th). I remember the debacle of Long-Term Capital Management a decade ago. In the late 1990s the hedge fund's collapse sent ripples throughout the financial world similar to those we are witnessing today, yet it was overseen by the brilliant economic team of Myron Scholes and Robert Merton, who earlier shared a Nobel prize in economics.

It is not the least bit surprising that academic economists would be pleased at the selection of an academic economic team. Academics of all persuasions are where they are today because they believe they know better than anyone else how things should work. Whether many are capable of actually making the world work is quite another issue. The difficulties we face now are not academic; they are real public-policy problems.

Robert Earley
Chicago

SIR – The notion that the office of secretary of state has sometimes been offered to losers of presidential elections as a consolation prize misses an important point (Lexington, November 29th). The position of secretary of state was the gateway to the White House for Thomas Jefferson, James Madison, James Monroe and John Quincy Adams. And Adams wasn't consoling Henry Clay when he gave him the job; he was hoping it would be a step towards the presidency for the Kentuckian. Barack Obama might reflect that the ambitious Clay spent four years pursuing his own advantage, angling to become president. He failed and so did the Adams administration.

The idea of the office as a "consolation prize" really applies only to William Seward and William Jennings Bryan. Like Mr Obama, Abraham Lincoln and Woodrow Wilson were reformers with little Washington experience who selected established party heroes as secretary of state. Seward was a success and Bryan a flop, but it was the end of the line for both. The position hasn't been such a good career move since the 1850s, when James Buchanan became possibly the least successful president ever.

Since then, even for such prominent statesmen as Charles Evans Hughes, George Marshall, John Foster Dulles, Henry Kissinger, and Colin Powell, the State Department has been a capstone, not a stepping stone. Is Hillary Clinton prepared to do the job in that light?

Andrew Browning
Portland, Oregon

SIR – Lexington stated that Mr Obama faces “a mother-in-law of a recession”. This is not a wholly accurate description. Unlike mother-in-laws, recessions rarely arrive unexpectedly on one’s doorstep. Nor do they exhibit behavioural patterns that defy normal rational explanation. And although both share a capacity to inflict misery and despair on the innocent, the scars from a recession will eventually heal.

Finbar O’Keeffe
Studio City, California

China's reforms

The second Long March

Dec 11th 2008
From The Economist print edition

China has been transformed by the changes ushered in by Deng Xiaoping 30 years ago. But the biggest step has yet to be dared

Getty Images



"ENGELS never flew on an aeroplane; Stalin never wore Dacron." Thus China's late leader, Deng Xiaoping, to a meeting 30 years ago that is now officially seen as the starting-point of his economic and political reforms. Deng's words meant Maoist dogma was out and pragmatism was in. A dramatically transformed China is now commemorating the anniversary. But even as officials trot out a litany of achievements they attribute to the country's "reform and opening" policy—200m fewer citizens living in poverty, a 6% share of global GDP compared with 1.8% in 1978, a nearly 70% increase in grain production—the world's financial crisis weighs heavily on their minds, and their leaders are struggling with unfinished business.

Vice-President Xi Jinping, heir-apparent to President Hu Jintao, is said to have been appointed chief organiser of the celebration programme. It includes concerts, exhibitions and endless speeches celebrating the "turning point" in China's history when Deng gained the upper hand over the Maoists. His victory was evident at two meetings held in November and December 1978. The first was a month-long "work conference" of the Communist Party's Central Committee, probably the liveliest gathering of its kind ever held (it was here, according to some Western scholars, that Deng mentioned Dacron). A more scripted and formal plenum followed it.

Next year the country will mark its 60th birthday as a people's republic (in Confucian tradition, 60th birthdays are particularly significant). Reform and opening has thus taken up half of China's communist life. But officials are being careful to manage expectations of further change. Deng once suggested that direct elections to national leadership posts could be held by 2050. No one mentions that now. On the economic side huge challenges loom, among them an ageing population and a blighted environment, both of which could drag down growth.

Deng, who died in 1997, is often described as the chief architect of reform, as if the sweeping changes of the past 30 years were mapped out by him. He himself more accurately described his approach as "crossing a river by feeling the stones". The ultimate objective has never been clear. Since 1992 it has been to set up a "socialist market economy", but officials struggle to explain how this differs from a real one. Deng announced that year that the party's "basic line" (party-speak for reform and opening under one-party rule) would not change for 100 years. This implies a lot more stone-groping.

Party leaders revel in this obscurity. It gives them flexibility in policymaking and makes it easier for them to forge compromises between factions. One of the most important political changes in China over the past 30 years has been a move away from the vicious factional strife of the Maoist era, a tendency that

persisted well into the 1980s and fuelled the pro-democracy upheaval of 1989. In 2002, for the first time in China's communist history, power was smoothly transferred from one set of leaders to another without killings or purgings. The new leaders express the same commitment to reform, but have a more left-wing agenda.

Papering over some of the party's history has helped them too, damping public demands for political change. The history of the reform programme itself has been sanitised and simplified in order to minimise public questioning of leaders' motives and actions. No mention is made, for example, of a vital part of the background to the party meetings, Democracy Wall—a 200-metre-long brick structure in front of a bus depot west of Tiananmen Square. For a remarkable four months in the winter of 1978-79, until Deng decided to shut it down and jail some of its activists, citizens plastered the wall with posters calling for freedom and democracy. The area is now a plaza flanked by shopping malls.

Party officials, preferring their heroes to be larger than life, have massaged history to imply that the meetings 30 years ago were a clarion call for reform and opening. They were not. The dismantling of the Maoist edifice after the Chairman's death in 1976 began more by stealth. A shift of emphasis towards rebuilding the economy was already under way long before the meetings began. Political rapprochement with the West—a key part of the "opening"—began several years before Mao's death, driven by a shared dislike of the Soviet Union.

The rule of prudence

The word "opening" did not even appear in the communiqué issued on December 22nd 1978, at the end of the two meetings. "Reform" was mentioned only once. A draft policy document on agriculture adopted by the leaders and promulgated the next year specifically rejected the idea, now considered a hallmark of China's rural reforms, of contracting out rural land to peasants to farm by themselves. By contrast, Mao's disastrous "people's communes" were praised. Deng's reformist victory was suffused with compromise, a pattern that persists to this day.

Some in the Chinese media now talk of a "Beijing consensus" as an alternative philosophy to the "Washington consensus" of liberal economics that lately seems so discredited. China's state-run news agency, Xinhua, recently said the Beijing consensus meant "prudence in market reforms". Deng was certainly prudent. He knew the importance of giving the Maoists some face, even as he consolidated his grip on power and allowed experiments to be carried out with precisely the kinds of changes the Maoists disliked. Rural reforms began in late 1978 in the central province of Anhui even as the party was holding its meetings in Beijing. Peasants in one commune there secretly started parcelling out land, expecting death for it, but soon gained backing from a provincial leader and Deng ally, Wan Li. Others gradually followed suit. By the time communes were formally dismantled in 1984, most had long disappeared in all but name.

Prudently, too, the government itself avoids pushing the idea of a "Beijing consensus" as an alternative to Western capitalism. It is fearful of accusations that it harbours plans to challenge American power and change the world order. It was actually an American, Joshua Cooper Ramo, who helped the phrase gain currency in 2004 with the publication of an enthusiastic pamphlet for the Foreign Policy Centre, a British think-tank. "What is happening in China at the moment", Mr Ramo wrote, "is not only a model for China, but has begun to remake the whole landscape of international development, economics, society and, by extension, politics."

For at least the first half of the reform period, few were so confident. Today's soaring city skylines are mainly the product of rapid growth in the past 15 years. And much of that growth is a product of hard-nosed liberal economics rather than any magic Chinese touch. Two of the most far-reaching reforms of the past 30 years—the dismantling of tens of thousands of state-owned enterprises (SOEs) and the privatisation of urban housing—did not take off until the late 1990s. In the case of enterprise closures, massive suffering (and not a little protest) was involved as millions were left unemployed.

Pro-democracy unrest in the late 1980s played a far bigger role in turning China capitalist than either officials, or admirers of China's supposed gradualist approach, suggest. The protests in China were ruthlessly crushed, but they—and the collapse of communism elsewhere—triggered fierce debate among Chinese leaders about the direction of reform. Some argued that a planned economy and tight social control were essential to the regime's survival. Others said the tumult had been fuelled by precisely these strategies. Deng, at long last, decided Maoism should be dealt a decisive blow. He emerged from retirement in 1992 to put a stop to the bickering and set China on a decisive path towards a market economy. The boom was instantaneous.

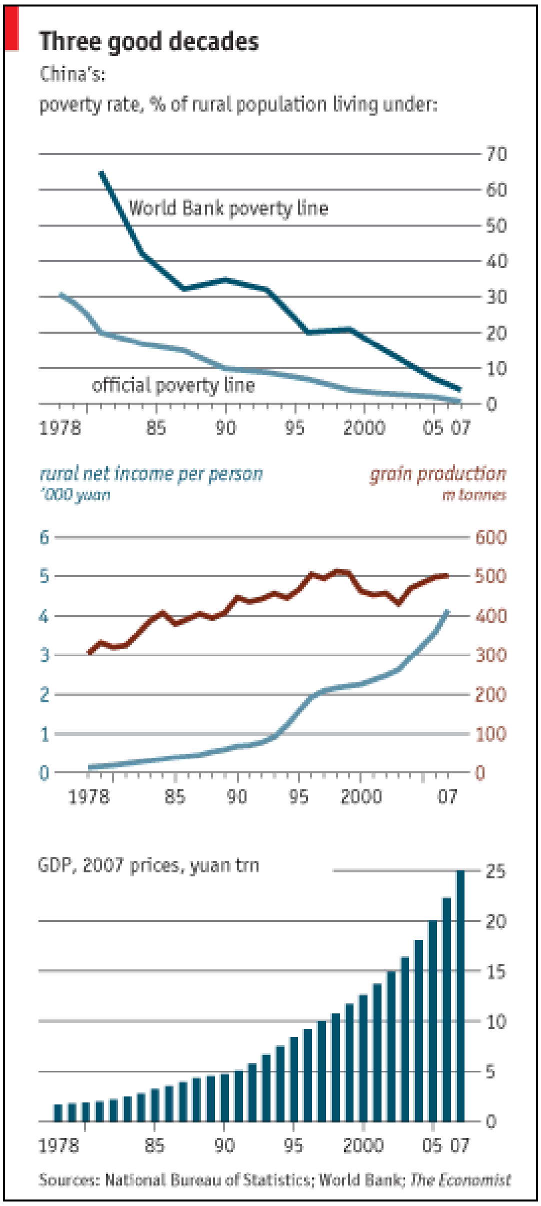
In 1978 Deng showed no such clarity of thought. He astutely read the tea-leaves of public opinion but had no grand vision. The 1980s were consumed by leadership struggles. Bao Tong, a former member of the party's Central Committee who was jailed for sympathising with the protesters in 1989, says Deng's original plan for the meetings 30 years ago was no more than to produce a consensus on the need to focus on the economy, then in tatters after the ravages of the Great Leap Forward in the late 1950s and the Cultural Revolution from 1966 until Mao's death. Reform and opening was not even on his agenda.

But the meetings did not proceed as expected. Deng, who was away on a foreign tour for the first few days, came back to find that discussions had been taken over by festering political grievances aired by leaders who had suffered under Mao. Delegates demanded the rehabilitation of purged colleagues and a re-evaluation of protests in Tiananmen Square in 1976, a few months before Mao's death, which had been declared "counter-revolutionary". For ordinary Chinese, it was the Beijing party committee's decision, while the work conference was under way, to declare the Tiananmen protests "entirely revolutionary" that signalled the biggest change that year—not anything Deng or his allies said about the economy.

Voices from below

The party likes to gloss over this. June 4th next year will be the 20th anniversary of the crushing of Tiananmen's more famous protests, in 1989, in which thousands may have died. As they celebrate reform's 30th birthday, officials do not want to suggest that any re-evaluation of the 1989 unrest may one day be possible. Not that they are likely to face much pressure to do so. The bloodshed is a distant memory now.

But public opinion continues to shape the progress of China's reforms. Liberal Chinese economists complain that the country still falls well short of what they would call a market economy. The currency is not fully convertible, so capital flows in and out of the country are controlled. So too, still, are some prices, including those of electricity, fuel and water. In January the government imposed new controls on some food prices. It lifted them again this month. Non-state-owned enterprises are now producing two-thirds of China's manufacturing output, but SOEs dominate key sectors such as banking, telecoms, energy and the media. Between 2001 and 2006 the number of SOEs fell from 370,000 to 120,000, but this still left assets worth $1.3 trillion in state control. There is much more work to do.



But the present set of leaders headed by President Hu and the prime minister, Wen Jiabao, worry more than their predecessors did about public reaction to painful restructuring. They have reason to be cautious. In the late 1990s around 30m workers were laid off as a result of SOE reform. China Labour Bulletin, an NGO based in Hong Kong, said in a September report that millions of these workers were left barely able to support their families, thanks to widespread corruption and a lack of clear policy guidelines. Messrs Hu and Wen, with their signature slogans of building a "harmonious society" and "putting people first", want to give the impression that theirs is a more caring kind of capitalism. A change of tack, they feel, is necessary to avert a public backlash.

Brakes began to be applied in 2004 after Larry Lang, a Hong Kong-based scholar and popular TV commentator in China, drew attention to asset-stripping during management buy-outs of SOEs, then a common form of privatisation. This struck a chord with many Chinese, who felt that factory bosses (officials, in effect) were getting fabulously rich as a result of such buy-outs, while workers were getting next to nothing. Officials responded by suspending the practice. Two years later, to stop him riling the public even more, they cancelled Mr Lang's TV show.

Cao Siyuan, an economist who helped draft China's first bankruptcy law in the 1980s and now runs a bankruptcy consultancy, says the privatisation of larger SOEs

has now all but ceased. Talk in the 1980s of encouraging private involvement in all competitive industries, he says, has been abandoned in favour of giving SOEs privileged positions in sectors the government regards as strategic (a term liberally interpreted). Mr Cao expects about 3,000 firms, most of them SOEs, to go through formal bankruptcy proceedings this year compared with 3,200 last year. The numbers that qualify for bankruptcy are ten times higher and rising, he says, but local officials are blocking SOEs from applying in order to preserve government reputations.

The lagging land

China was highly praised around the world for dismantling the communes and for the big increase in agricultural output that followed (although raising prices paid to peasants for their grain helped, too). But the rural power structure has changed little since commune days. Land remains collectively owned, even though it is leased out to individual households to farm. This system has shut farmers out from the boom that cities have enjoyed as a result of the rapid emergence in the past few years of a free market in property.

In October President Hu chaired a Central Committee plenum that was clearly intended to echo the one held 30 years ago. But it proved an anticlimax. Mr Hu and his colleagues remain fearful that any big change in the land system will unleash an avalanche of peasants on cities already struggling with meagre social provision. Although turning peasants into city-dwellers is crucial to maintain the fast growth of the past 30 years (nearly 10% a year on average since 1978), the government wants to keep a firm grip on the process. Migrants are allowed into big cities on sufferance. During the outbreak of SARS in 2003 Beijing was all but emptied of them. Many left in August during the Olympic games, as officials put indirect pressure on them to stay away.

AP



Thought liberation is a long way away

Like Deng and like Jiang Zemin who succeeded him, Mr Hu has paid little more than lip service to the idea of political reform. He repeats Deng's disingenuous line that without democracy there can be no socialism or socialist modernisation. But some Chinese scholars have pointed out that even communist Vietnam—whose leaders eye with envy the success of China's economic reforms—has done better on the political side. In an article published in May by an official journal, *Reform Internal Reference*, Gao Shangquan, a prominent Chinese economist, said that Vietnam had "fewer ideological obstacles than we have"—fewer arguments, he said, over what constitutes socialism and capitalism. In another article in June he noted that only last year a petition signed by 170 people (many of them former senior officials) had accused the party of leading China towards a "capitalist restoration".

Mr Hu certainly has no plans to weaken the party's influence, much less to allow opposition to organise. The authorities have detained or questioned several signatories to an unusually bold call for political liberalisation issued by around 300 intellectuals on December 10th to mark the 60th anniversary of the universal declaration of human rights. And Mr Hu has devoted considerable effort (and the party considerable funds) to rebuilding the party's grassroots organisation, which was dealt a body-blow by the closure of state-owned enterprises and the rapid growth of the private sector. Party officials have sent thousands of teams to persuade private firms to allow the establishment of trade unions (which in China are controlled by the party) as well as party cells.

Their efforts have met some resistance, not least from foreign-invested enterprises. Wal-Mart, an American retail chain with around 100 superstores in China, was especially stubborn. Repeated meetings were arranged by party officials with Wal-Mart representatives in the eastern city of Nanjing in 2006 after the firm's (reluctant) decision to allow a union branch. The officials, on instructions from the trade-union

chief, Wang Zhaoguo, demanded a party cell too. Only six party members could be found in a workforce of more than 400, and those six did not feel a cell within Wal-Mart was needed. But the company succumbed, and others have followed. By the end of 2006, party cells had been established in more than two-thirds of larger non-state enterprises.

Early this year, some official newspapers published calls for a new round of "thought liberation". Some Chinese scholars openly appealed for a new phase of reform focusing more on politics. But crises intervened—upheaval in Tibet in March, an earthquake in May that killed tens of thousands—and so, too, did the deadening impact of the Olympic games, during which the authorities tried to suppress any hint of dissent. Now Chinese officials fret about the possibility of growing unrest as the economy suffers the impact of the global crisis. Democrats must wait.

The economy

Days of open wallet

Dec 11th 2008 | WASHINGTON, DC
From The Economist print edition

Barack Obama is promising a vast new public-works programme as his solution to America's economic woes

Library of Congress



NO SOONER had the worst job losses in a generation been reported (on December 5th, a Friday), than Barack Obama stepped up his calls for an ambitious fiscal stimulus package, taking to the airwaves twice over the weekend to do it. Not only would his plan prop up the sinking economy, he said, but it would equip America with more productive and efficient infrastructure, aiding future growth. His remarks gathered infinitely more attention than those of the actual president, who confined himself to vague optimism and a hard-to-substantiate claim that the frozen financial system is starting to thaw.

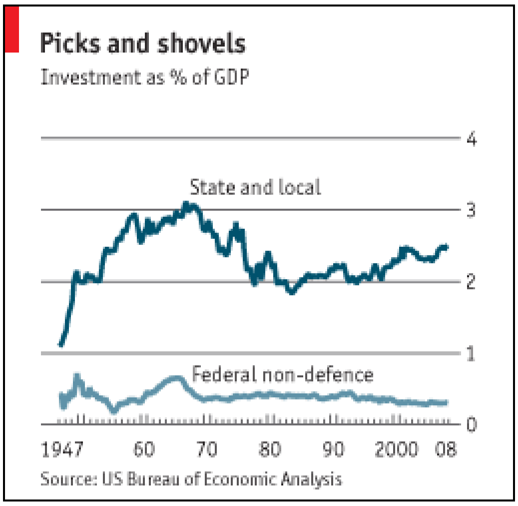
There seems no doubt that resistance from politicians and investors to a seriously big package is melting. The December 5th figures showed that America lost 533,000 jobs in November, the biggest monthly loss in absolute terms for 34 years, though at 0.4% of the workforce, it was a bit less bad—only the worst since 1980. The unemployment rate rose to 6.7% from 6.5%, and would have risen far more if so many unemployed workers hadn't given up looking for work. Losses were especially severe in construction, retailing and manufacturing. Macroeconomic Advisers, a forecasting firm, estimates that the economy will shrink at an annual rate of 5.5% this quarter and 4.25% next. A fiscal stimulus of $500 billion over two years would come too late to alter that but could bring the recession to an end by mid-2009 and hold the unemployment rate to 8.5%, the firm estimates. Without such a stimulus, the recession would stretch into the third quarter and unemployment would hit 9.5%.

For once, politicians and economists agree the deficit should not be a worry. The credit crunch and the collapse in the stockmarket mean households are trying to consume less and save more. But for them to do so collectively, some other sector must consume more and save less. Corporations are not going to do it: they are cutting investment and hoarding cash in the hope of staving off a liquidity crisis or even bankruptcy. Demand is not going to come from the rest of the world: many other countries are in recession. Even in China, which is still growing fast, demand for foreign goods is contracting sharply: by 18% year-on-year, according to figures released on December 10th. So that leaves the federal government.

Mr Obama has not yet provided any precise details of the sort of fiscal plan he will seek to drive through

Congress once he takes the reins at noon on January 20th, although speculation has centred on a package worth some $300 billion a year (or 2% of GDP), comprising hiring credits for employers, permanent tax cuts (or credits) for workers and a public-works programme which, he pledged, would be the biggest since Dwight Eisenhower created the interstate highway system in the 1950s. (That project, at $400 billion in today's dollars, cost four times as much and took three times as long as planned.)

State and local governments account for most public investment (see chart). Their spending on highways and schools for baby-boomers lifted such investment above 3% of GDP in the 1950s and 1960s. But the federal government pays for much of it, and so gets a significant say in how the money is spent.



The conundrum is that it is hard to spend both rapidly and wisely. America's transport infrastructure is in need of overhaul (see article), and many worthy projects exist that could boost energy efficiency or alternative fuel sources. But there may not be enough of them to absorb large sums quickly. Often such projects are kept on the drawing board not by lack of money but by politics and planning. Adapting the electricity grid, for example, to use more alternative energy may require new transmission lines for which approval can take years. In September the non-partisan Congressional Budget Office estimated it would take two years to spend just 60% of $37 billion in infrastructure funds in a stimulus bill passed by the House of Representatives (but not yet acted on by the Senate).

State and local governments say they have thousands of "shovel-ready" projects that could be started as soon as federal money becomes available. The Conference of Mayors, seizing the moment, released an 803-page report this week listing 11,000 projects which, they claim, would create more than 800,000 jobs over the next two years. But the economic merit of many is dubious. Their list includes $1.5m to coax prostitutes off the streets of Dayton, Ohio, and $200,000 for a dog park in Hercules, California. Douglas Holtz-Eakin, a former economic adviser to John McCain, says many unfunded projects are "ready to go because they were drawn up, reviewed and rejected" by government. Mr Obama has promised not to spend money the "old Washington way" but those ways are hard to change.

Mr Obama also considered an early implementation of the $500-per-worker or $1,000-per-household tax cut (or, for those who don't pay enough income tax, a payment) which he promised during the campaign. But tax cuts provide limited bang for the deficit buck: only about 30% of last summer's $110 billion in tax rebates were spent. The impact could probably be larger now, partly because more households are strapped for cash, but also because a permanent boost to income is more likely to be spent than a one-off rebate.

Even so, such rebates will raise the deficit sharply relative to how much they boost growth. And that highlights another problem. The budget deficit could top $1 trillion, or 7% of GDP, this fiscal year. That may be necessary in the short run, but could be dangerously destabilising before long. Rudolph Penner, a former CBO director, predicts that the federal debt (excluding debt owed to other parts of the federal government) will soar from 38% of GDP this year to 55% at the end of 2010, the highest since the early 1950s, when the country was still in hock from fighting a war.

Japan offers a cautionary tale on the risks of infrastructure-based stimulus. A spree of public-works projects designed to spur growth left construction equal to an unwieldy 20% of GDP, compared with 10% in America, and drove the national debt to one of the highest levels relative to GDP in the OECD. America's construction industry is not as politically powerful, inefficient and corrupt as it historically has been in Japan, and Japan worsened its slump by increasing the sales tax to deal with the debt. Still, Mr Obama should take note if he wants to get his stimulus right.

Infrastructure projects

Roads to nowhere

Dec 11th 2008 | LOS ANGELES
From The Economist print edition

America is in danger of getting the wrong kind of infrastructure

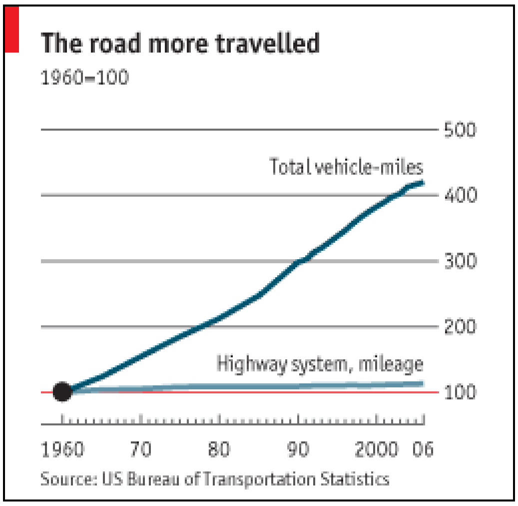
WITH the economy in recession and unemployment quickly rising, America's elected leader prepares to put hundreds of thousands of people to work on infrastructure projects. Visiting the site of a new road, he sums up his agenda in three words: "Jobs, jobs, jobs".

Barack Obama in 2008? No, that was George Bush senior in 1991. Politicians have long seen public works as a solution to economic woes. But few presidents have been as keen to spend as Mr Obama, or as pressured. America's mayors have their wish list of projects, which cost about $73 billion. State governors are pushing for $136 billion-worth of projects.

The need is undeniable. Many old industrial cities have rich networks of roads and railways, dating from a time when they were much bigger. These are now crumbling. Last year a bridge collapsed in Minneapolis, killing 13 people. A tunnel that brings water to New York sprang a leak in the 1980s and is currently losing about 20m gallons a day. Philadelphia has been flooded with sewage. The most recent infrastructure "report card" by the American Society of Civil Engineers contains nothing but Cs and Ds.

Matters are even worse in the desert West and lowland South, where population growth has been so rapid that basic infrastructure is often non-existent. Las Vegas (population 560,000) is linked to Phoenix (1.6m) by a rural road that trundles over the Hoover Dam. The West struggles with a water system, built by the federal government in the early 20th century, that serves farmers much better than city-dwellers. The scarcity of power lines is holding up efforts to generate electricity from sun and wind.

These problems have two causes, the smaller of which is lack of money. Roads, for example, are paid for largely by a national 18.4-cent tax on a gallon of petrol. This levy has not been increased since 1993, and its value has been eroded by inflation. Road-building is lagging well behind use (see chart). Now fuel consumption is falling, cutting tax receipts further.



The greater problem is the lack of a strategy. No federal office oversees spending on infrastructure. Congressmen appropriate money for individual projects, a few of which are ludicrous (Alaska's "bridge to nowhere") and most of which bear no relation to each other. Cash for roads is given to states with few strings attached. "It is as close to a blank cheque as the federal government comes to writing," says Robert Puentes of the Brookings Institution, a think-tank.

The federal government's failure to invest in infrastructure has had one good effect. It has pushed much of the burden on to states and cities, whose efforts are scrutinised much more closely by taxpayers and the media. California has set up a strategic growth council to co-ordinate infrastructure spending. Voters have responded by approving tens of billions of dollars in infrastructure bond issues in the past two years. The latest, last month, was $9 billion towards a high-speed railway between Los Angeles and San Francisco.

The lack of federal cash has also provoked states to think boldly about how to manage demand and recoup infrastructure investments. There is growing interest in public-private partnerships, although America still lags well behind Europe. Oddly, the corruption-tainted state of Illinois has been unusually forward-looking. In 2005 Chicago became the first city to lease a toll road to a private company.

So a wiser approach to public works is slowly taking shape. Unfortunately, it is now in danger of being

washed away by a torrent of money. Speed in spending is prized above all; but this is no way to build something that lasts as long as infrastructure. Mr Bush's three priorities should really have been "Value, value, value".

Corruption in Illinois

The Chicago way

Dec 11th 2008 | CHICAGO
From The Economist print edition

The stunning arrest of the governor

ROD BLAGOJEVICH has the hair of a Kennedy and the tongue of a Soprano. When he first arrived on the political scene in Illinois, many thought he was a rising star. Some even murmured that he might climb as high as the White House. Young and handsome, Mr Blagojevich was elected as a Democratic congressman in 1996 and then governor in 2002. He took office vowing to bring ethics reform to Illinois. This week, at about 6am on December 9th, an FBI agent called the governor at his home on Chicago's North Side to say that he was about to be arrested as part of a corruption investigation. Mr Blagojevich wanted to know if the call was a joke.

The arrest may have been a surprise to the governor, but many were expecting it. Investigations into his administration's hiring, contracting and fund-raising stretch back to 2003. Thirteen people have been indicted or convicted in the debacle, including Tony Rezko, a Chicago developer and fund-raiser whose dealings with Barack Obama proved an embarrassment to the presidential candidate earlier this year. Patrick Fitzgerald, the tireless federal prosecutor for Illinois's northern district, put Mr Blagojevich's predecessor in jail in 2006 and shows no signs of slowing down.

AP



Unappreciated governor and man trying to edge away

Few expected the 76-page complaint against Mr Blagojevich to present such a feast of bad behaviour. "Fire those fuckers," he said of those who wrote critical editorials about him at the *Chicago Tribune*, and threatened to hurt the paper financially if it did not oblige. "If they don't perform, fuck 'em", he said of an effort to squeeze contributions from a state contractor. But the most stunning charge is that Mr Blagojevich, who can appoint a nominee to hold Mr Obama's seat in the Senate until the scheduled election is held in 2010, wanted to sell the seat to the highest bidder. (The governor called the seat "a fucking valuable thing, you don't just give it away for nothing" and is alleged to have sought to get a big job in return for it.)

The investigation does not implicate Mr Obama in any of this, but it has raised some questions. Republicans are now asking whether discussions were held between them and the governor's office about the Senate appointment. Back in November David Axelrod, Mr Obama's chief adviser, said that Mr Obama had discussed "a whole range" of possible candidates with the governor: he now says he was "mistaken" and that Mr Obama did not talk to Mr Blagojevich about the matter.

The complaint also alleges that Mr Blagojevich knew whom Mr Obama wanted to see in the seat, apparently his close adviser, Valerie Jarrett, and was less than happy ("fuck them") that all he would get in return for giving her the seat would be "appreciation". That could reflect well on Mr Obama, since Ms Jarrett in fact withdrew herself from consideration. Seeking more concrete reward, Mr Blagojevich spoke with an emissary for "Candidate 5", Jesse Jackson junior, about a deal for his seat. Mr Jackson, a congressman, fervently denies any wrongdoing. The leaders of the state Senate and House say they will vote soon to strip the governor of his powers of appointment, and that a special election should be held

to fill the Senate seat.

Beyond Illinois, Democrats have reason to be worried. William Jefferson, an indicted Louisiana congressman, lost a special election on December 6th (see article). In New York Charles Rangel, chairman of the House Ways and Means Committee, is dogged by a string of scandals. Democrats have seized power from the Republicans. They are in danger of seizing the mantle of corruption, too.

Bailing out the car industry

Invest in Michigan

Dec 11th 2008 | DETROIT
From The Economist print edition

The rustbelt gets a lifeline

"INVEST IN AMERICA", screamed the front page of the *Detroit Free Press* on December 4th. Copies of the newspaper were sent to Congress, begging for a bail-out for General Motors, Ford and Chrysler. "You can help them," the paper urged, warning: "And if you don't, make no mistake: there will be bleeding throughout the land." The prospect of a collapsed car industry was so terrifying that a church in Detroit placed three hybrid SUVs on its altar and prayed for divine intervention.

Politicians, though, make unlikely deities. As *The Economist* went to press the bail-out was in limbo. Congressional Democrats and the White House had agreed on a $14 billion bridging loan to keep GM and Chrysler afloat until the end of March (Ford is in better shape). A "car tsar" would oversee the companies' reorganisation. Nationalisation is the subtext of the deal, if not the headline. But though the House passed the bail-out on December 10th, the bill faces a much tougher battle in the Senate, where the Republicans are suspicious of it and still hold a blocking minority. Even if it succeeds, a bridging loan assures that the debate over a bail-out will drag on.

Many proponents insist that Detroit's "Big Three" carmakers, like some banks, are too big to fail. The Centre for Automotive Research (CAR), a group based in Ann Arbor, Michigan, estimated last month that the collapse of the industry would mean the loss of almost 3m jobs in 2009 and $157 billion in total tax revenues over three years. Merrill Lynch reports that a collapse could imperil Midwestern banks.

In examining the Big Three and their role in America's economy, however, answering "what if" may be less useful than "what is". The car and parts industries employed 732,800 workers directly as of September and the Big Three employed 239,341 workers at the end of 2007, according to CAR. Some 2m present and former workers depend on carmakers for health care.

Nevertheless, since 1980 the Big Three's footprint on America has shrunk. They have closed farther-flung assembly plants and retreated to their historic base in the upper Midwest, explains Thomas Klier of the Federal Reserve Bank of Chicago. Foreign carmakers, meanwhile, have found fertile ground in the South, building factories in states such as Alabama, Mississippi and Tennessee. The Big Three still loom largest in the rustbelt, though they are also important to states such as Louisiana and Missouri. In 2006 car and parts manufacturing comprised 5% of GDP in Ohio, 7.6% in Indiana and 10% in Michigan, according to the most recent figures from the Bureau of Economic Analysis (BEA).

Michigan remains the most dependent on the Big Three, even more so than the BEA's numbers suggest. The BEA's classification does not include headquarters and research facilities, most of which are clustered in the state, according to Donald Grimes, an economist at the University of Michigan. The BEA also groups together foreign and domestic carmakers. Ohio and Indiana have lured more foreign carmakers than their northern neighbour. The day before Rick Wagoner, GM's chief executive, first visited Congress with his hand out, Indiana's governor applauded the dedication of a new Honda factory.

Michigan, by contrast, has risen and fallen with the fortunes of the Big Three. The state's concentration of Big Three workers is 12 times the national average, explains Mr Grimes. This year's annual forecast from the University of Michigan charts how the state gained almost 800,000 jobs between 1991 and 2000, and then proceeded to lose more than half of them, 415,000, from 2000 to 2007. A main reason, according to the report, is that the firms' car sales fell from 11.5m units in 1999 to 8.1m in 2007.

The outlook remains dismal. The report predicts that Michigan will have a net job loss of 674,000 from 2000 to 2010. The university's economists have long made a plaintive request to their state: diversify. That plea is suddenly more urgent.

Barack Obama's BlackBerry

Subject: The environment

Dec 11th 2008
From The Economist print edition

Another e-mail from the president-elect's inbox



"WHEN you secured the nomination, you said that this was the moment when the rise of the oceans began to slow and our planet began to heal. Now you have to decide how much you want to deliver on those words.

You have promised to institute a cap-and-trade scheme to reduce America's greenhouse-gas emissions. You have also pledged to push for a new climate-change treaty, to replace Kyoto which expires in 2012. And you have helped to spread the notion that greening America through investments in energy efficiency and clean technology might actually help revive the economy. The big question is whether (A) to try to make good on all these promises through one big but risky legislative package early on, or (B) to start with a few symbolic steps—requiring 15% of America's power to come from renewables, say, or a big hike in spending on energy efficiency—and defer the trickier bits until later.

The argument for pressing ahead on all fronts is clear. Climate scientists suggest that we don't have a lot of time to mess around. The sooner we act, the bigger the effect on emissions. It's hard to get Congress moving, so why undermine the current sense of urgency with half measures? This is a subject that excites much of your base, and would do a lot to restore our image abroad.

But the drawbacks are also pretty obvious. Making polluters pay for their emissions will inevitably raise the cost of electricity and fuel, which will feel like a big hike in taxes in the midst of a recession. You may create some green jobs, but you will destroy a lot of existing dirty ones. (Detroit is sure to squeal, for starters.) Worse, you may not actually manage to bring Congress around; even our newly expanded Democratic majority is twitchy about placing extra burdens on the economy just now. Climate change could become your version of health-care reform under Bill Clinton: an overambitious policy that dissipates your political capital early on.

Of course, deferring serious action on climate change would have other nasty consequences. For one thing, it would scupper any chance of the world agreeing on a replacement to Kyoto by next year's deadline. And that will push America right back into the role of villain-in-chief and discourage China and India from doing much to reduce their emissions. It will take all your political skill to mollify the rest of the world while America settles its domestic policy. Oh: and if a new treaty is ever agreed, you'll need to talk 67 of the 100 senators into ratifying it. Good luck!"

Trying terror

Doubly damned

Dec 11th 2008
From The Economist print edition

A dreadful dilemma for the new president

KHALID SHEIKH MOHAMMED, the self-confessed mastermind behind the 2001 terrorist attacks on New York and Washington, announced this week that he and his four co-defendants want to plead guilty to their role in the killing of 2,974 people in the most deadly assault in America's history. All five face the death penalty if convicted. Under the rules of the special military tribunals (or "commissions") set up to try the suspected foreign terrorists being held in Guantánamo Bay, the American president will have to sign—or refuse to sign—their death warrant. Because of time-consuming technicalities, that duty seems certain to fall to Barack Obama.

This presents America's next president with a peculiar conundrum. Mr Obama has repeatedly said that, once in office, he will move swiftly to close down both the Guantánamo detention camp and the military commissions, the latter condemned by human-rights groups as "deeply flawed". Unlike ordinary American courts, the commissions can admit as evidence information obtained through coercion (but not torture). As well as undergoing harsh interrogation techniques such as stress positions, sleep deprivation and extremes of temperature, Mr Mohammed was also subjected to "waterboarding", or simulated drowning, regarded by many (though not by the administration) as torture.

At a pretrial hearing in June, Mr Mohammed told the court that he had wished for martyrdom "for a long time". Regarded as number three in the al-Qaeda hierarchy, he has confessed to 30 other terrorist plots, according to the Pentagon, including the beheading of Daniel Pearl, a journalist with the *Wall Street Journal*, and plots to blow up Big Ben and Heathrow airport.

If he does indeed plead guilty to the 2001 attacks, thereby potentially avoiding a trial, the quality of the commissions might not seem to matter. But for capital offences, a full commission composed of judge and military jury must still be convened to convict and sentence the defendant. Could Mr Obama agree to accept a decision—and of the most extreme kind—by a court for which he has so little regard that he wants it scrapped? If he did not, he would disappoint the millions of still deeply traumatised Americans who want nothing less than the supreme punishment for the perpetrators of the massacre of so many innocents on that terrible September morning.

The Everglades

Sugar and grass

Dec 11th 2008 | MIAMI
From The Economist print edition

A plan to save a national treasure

FLORIDA'S politicians have debated for years with environmentalists over how to restore the Everglades wetlands to their natural state. The obstacles are huge, principally because a large swathe of valuable sugar-cane farmland, belonging to powerful companies, lies slap in the middle of the proposed conservation area.

But now, to the surprise of many, Florida's governor, Charlie Crist, has come up with a bold plan to buy 180,000 acres of land from one of the two main producers, US Sugar Corp. The idea is to use this land to restore the natural flow of water from Lake Okeechobee into the marshy Everglades—the "river of grass", as a leading environmentalist once called them.

The growth of Orlando to the north, combined with intense agriculture and federally built drainage canals to prevent flooding, have in recent decades fatally disrupted and polluted the ecosystem of the Everglades. Experts have said for years that without drastic action America's largest subtropical wetland was in grave danger, along with endangered species such as the Florida panther and the American crocodile. Phosphorus-laden water has also seeped into the St Lucie and Caloosahatchee estuaries, poisoning oyster beds and causing harmful algae blooms.

The idea is to use the sugar land to construct a network of reservoirs to clean and store water before sending it south into the Everglades National Park. Buying the land from US Sugar will cost the state $1.34 billion, to be raised through bond issues by the South Florida Water Management District. In return, US Sugar will hand over the land, with the right to lease most of it back for seven years. Under the terms of the contract, which the company's shareholders approved this week, US Sugar keeps its mill, an extensive rail network and a citrus-processing plant. It will also be able to lease the rest of the land back for a paltry $50-an-acre annual fee. Critics have called this too generous, though an original plan was even more so. But the plan has the advantage of allowing US Sugar to remain in business in Florida—and the sugar it grows could also be used for ethanol.

Mr Crist is known to be a big fan of alternative energy. He has endorsed a biofuels proposal by an Illinois firm, Coskata, which hopes to build a 100m-gallon cellulosic ethanol plant in a joint venture with US Sugar, combining farm waste with municipal rubbish.

The Everglades deal, which still needs to be approved by the Water Management Board, could further enhance the credentials of Mr Crist, who was considered as a running-mate by John McCain. Mr Crist hopes the deal will open the way for a much larger $12 billion federal plan for restoring the Everglades.

But it is still doubtful whether the money for any of this can be raised. Mr Crist could soon have a big ally in Washington where Carol Browner, a former Florida environmental official, is tipped to become the nation's first "climate tsar". The prospects in Florida itself are not so good. Latest reports show a huge hole in Florida's budget, which may put off investors in its new Everglades bond issue.

New Orleans

Out at last

Dec 11th 2008 | NEW ORLEANS
From The Economist print edition

A final blow for William Jefferson's sleaze machine

THE defeat last weekend of New Orleans's entrenched, compromised congressman, William Jefferson, may appear to be a rare vote against corruption. Certainly the $90,000 in marked bills that the FBI found in Mr Jefferson's freezer in 2005 was a factor in his demise. But it was not the main one.

In fact, since the discovery of the cold cash became public, Mr Jefferson has won handily in four straight elections, including Democratic party primaries and run-offs. Two of those victories came after he was indicted on 16 bribery-related charges. (Prosecutors say he took money in exchange for help in arranging business deals in Africa.) His winning streak did not end until December 6th, when the nine-term congressman failed to rally his base to the polls.

Hurricane Gustav pushed Louisiana's congressional elections back by a month, making them the last ones to be held in the country. The turnout in the congressional race last Saturday was 60% lower than it had been a month earlier in the Democratic run-off for the same seat, when Barack Obama's was the first name on a crowded ballot. In that election Mr Jefferson got almost three times as many votes as his vanquisher, Anh "Joseph" Cao, a Republican, received when he won outright last Saturday. (Mr Cao fell just short of a majority, winning almost 50% of the vote compared with 47% for Mr Jefferson.)

If Mr Cao's win was not completely convincing, it was remarkable nonetheless. He becomes the first Vietnamese-American congressman, an impressive milestone for a state that not so long ago flirted with a white supremacist, David Duke. Asians are a small minority in the district, where nearly two out of three registered voters are black. And only 11% of the voters are registered Republicans.

Those statistics may mean that Mr Cao's time in office is brief. But he has already done well to topple a seemingly unbeatable foe. And Mr Jefferson, one of the city's last remaining political bosses, has one fewer chip with which to bargain as he confronts a team of federal prosecutors. His trial, much delayed, should begin next year. A brother, a sister and a niece, all figures in his political machine, also face corruption trials. Even if Mr Cao came in through the back door, he appears to have dealt the Jefferson apparatus its final blow.

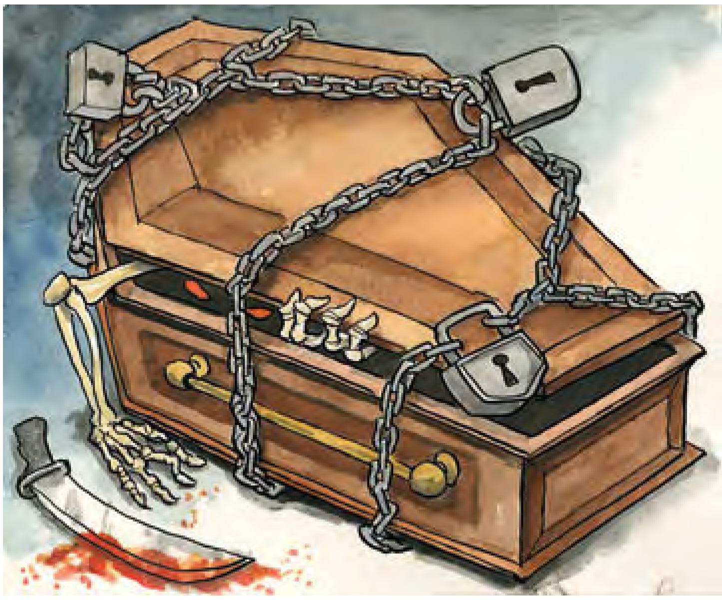
Lexington

Preventing genocide

Dec 11th 2008
From The Economist print edition

Advice for Barack Obama on grappling with a problem from hell

Illustration by KAL



A FEW years ago, Lexington visited a shabby church in Rwanda. Inside was a memorial to a massacre that took place within its walls in 1994. The most upsetting sight was that of small skulls which, unlike the larger ones around them, were mostly incomplete. Babies' jawbones tend to break off when clubbed.

Preventing genocide is what one of Barack Obama's advisers calls "a problem from hell". But this week a group called the Genocide Prevention Task Force published some helpful guidelines for the president-elect. It is a serious group, led by Madeleine Albright (a former secretary of state) and William Cohen (a former defence secretary). And its report is steeped in good sense.

For a start, it avoids definitional traps. What, after all, is genocide? The Convention on the Prevention and Punishment of the Crime of Genocide is hopelessly vague, talking of "inflicting on [a] group conditions of life calculated to bring about its physical destruction in whole or in part". Read literally, that could include almost any atrocity. Gérard Prunier, a historian of Rwanda and Darfur, prefers a stricter standard: a deliberate attempt to destroy a racial, religious or political group in its entirety.

Ms Albright and Mr Cohen sidestep this muddle by using the word "genocide" colloquially, as shorthand for the deliberate mass-murder of civilians. They then suggest ways to prevent it. First, the president should make this an explicit goal of his foreign policy. This is not only a moral obligation, says Mr Cohen, but will help keep America safer. Genocide can cause a state to collapse, and failed states make good boltholes for terrorists.

For about $250m a year, the authors of the report reckon America can detect the early rumblings of genocide and silence them. The directorate of national intelligence should monitor every trouble spot for signs that men with guns or machetes are about to kill lots of unarmed people, and report regularly on its findings. In high-risk countries, American aid dollars should address the conditions that make genocide more likely, such as ethnic discrimination, armed insurgency and leaders who whip up hatred to cement their own grip on power.

When the signs suggest that mass-murder is being planned, diplomats should warn the would-be perpetrators of dire consequences if they proceed. If all else fails, America should send in the marines,

but the authors hope that the mere threat of this will usually be enough. Finally, since America cannot monitor or police the world alone, Ms Albright and Mr Cohen call for the creation of a global network to share information and act together to prevent genocide.

Optimists think Mr Obama is just the man to put all these noble thoughts into practice. He is hardly an expert on the world's hellholes, but he surrounds himself with experts. Susan Rice, his pick for ambassador to the UN (a post that will now carry cabinet rank) was a cog in the machine that kept America out of Rwanda, and is determined not to repeat that mistake. Samantha Power, a member of Mr Obama's transition team, is a former war correspondent in the Balkans, the author of a Pulitzer prize-winning book on genocide and a professor at Harvard. Mr Obama's favourite think-tank, the Centre for American Progress, houses the Enough project, which aims to put the "never" into "never again". The head of the Enough project, John Prendergast, is a perceptive Darfur-watcher and has also written a book on genocide. He says Mr Obama has recruited a "dream team" to prevent genocide. He singles out the forceful Hillary Clinton and James Jones, a respected general who will be the next national security adviser.

All this is encouraging. But in his quest to deliver the world from evil, Mr Obama will face several roadblocks. From the moment he assumes office, the economic crisis, health-care reform and Iraq will gobble up nearly all his time, energy and political capital. Whatever Mr Cohen says about the national-security benefits of genocide prevention, a report that a massacre might be about to occur in a poor and obscure place is unlikely to shoot to the top of the presidential in-tray. And will Mr Obama really be ready to send in the marines if deterrence fails?

Curbing the atrocities that are known about is hard enough. Mr Obama will probably push for negotiations to end the war in Darfur. The leading killers on both sides are likely soon to be indicted by the International Criminal Court, which should concentrate minds and provide an American peace envoy with an opening. Mr Obama will also give a jolt to the peace process in eastern Congo, where mass graves have recently been found. But given America's commitments in Iraq and Afghanistan, there will be few American boots to patrol other war zones.

Easier said than done

And the trickiest challenge will always be the unexpected. Bill Clinton is often blamed for failing to stop the killing in Rwanda. He could have sent troops or at least jammed the radio broadcasts that told the killers where to go and whom to kill. But he had seen a humanitarian military intervention in Somalia go bloodily awry the previous year, so he did not. He said afterwards that he had not understood soon enough what was going on in Rwanda. Ms Power retorts that he "could have known...if he had wanted to know". But that is easy to say with hindsight. The Rwandan genocide was the quickest on record. Even experts did not realise just how well-organised and systematic the killing was until nearly half the victims were already dead. Mr Clinton could in theory have wrenched his mind away from all the other crises in the world and grasped the Rwandan situation in time to save many lives. But in practice, how many presidents are that flexible?

Perhaps Mr Obama will do better. But even a quick brain, a legion of good advisers and the loftiest of intentions are no guarantee. The next genocide may erupt in a place or in a manner that no one predicts. And American interventions to crush murderous governments do not always go as planned. Ask George Bush.

Latin America

Preparing for tougher times

Dec 11th 2008
From The Economist print edition

There is much that governments can do to protect recent social gains—but they will need outside help

Illustration by S. Kambayashi



IT WAS great while it lasted. In the five years from 2004 Latin America's economies grew at an annual average rate of over 5%, inflation remained generally low, credit expanded and exports boomed. All this meant that the proportion of people living in poverty fell from 44% in 2002 to 33% this year, according to an estimate this week by the United Nations Economic Commission for Latin America and the Caribbean. Now the task facing the region's policymakers is to limit the damage as the world economy deflates.

Until September Latin Americans could still hope that they would escape the worst of the downturn. Brazil's economy, for example, grew by 6.8% in the third quarter compared with the same period last year, while Peru's GDP expanded by 10% in the year to September. But in the past two months, Latin America has seen its stockmarkets crash, currencies wobble and credit start to dry up. That comes on top of falling exports and the plunge in the prices of the commodities it sells to the world. Twisting the knife, less money is being sent home by Latin Americans working abroad (see article).

This has sent economists scurrying to cut their forecasts time and again. As recently as October, the IMF expected growth in the region next year of 3.2%. This week the World Bank forecast 2.1%. The same day Morgan Stanley, an investment bank whose Latin American research team is among the more pessimistic about the region, cut its forecast for the seven largest economies in 2009 from growth of 1.5% to a contraction of 0.4%.

The average conceals wide variations. Brazil's government still expects growth of 4% next year, though that looks optimistic. Mexico, hit by its close ties to the American economy, will be worse affected, but may manage growth of 0.4%, according to a poll of private forecasters by its central bank.

Two things lie behind the bleaker outlook. The first is the continuing steep fall in commodity prices because of worries that China's economy is stalling. Commodities, from Venezuelan oil to Peruvian minerals, Argentine soya and Brazilian iron ore and orange juice, make up a big chunk of the region's exports.

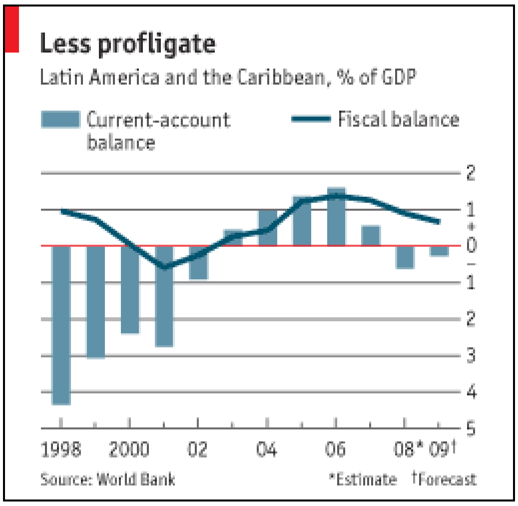
The second dampener is that banks in Latin America have turned cautious. Many foreign banks are cancelling credit lines to the region, or renewing them for shorter periods or at higher rates. That may be to shore up their battered finances at home, but local banks seem to be following suit. "What's new is that until recently credit was seen as a shock absorber. We're discovering that the link between the world

and Latin America is still very strong," says Gray Newman of Morgan Stanley. As investors flee risk, financing conditions for governments have tightened too.

As they watch governments from Australia to the United States throw the kitchen sink at their economies to try to jolt them into life, the question for Latin American policymakers is whether they can afford to do something similar.

The answer is maybe. Many of the larger economies are entering the slowdown with stronger fiscal and balance-of-payments positions than in the past (see chart). That is a tribute to lessons learnt the hard way. Governments have slimmed their debt and shifted much of it into local currency, so at least currency weakening does not automatically increase the fiscal burden. Unlike their peers in the rich countries, many of the region's central banks raised their benchmark interest rates earlier this year as higher food and fuel prices caused inflation to spike.

But even if on paper there is scope for counter-cyclical policies, in practice there are still constraints (see article). Though monetary policy in many countries is governed by inflation targets, central bankers must keep a weather eye on the currency. Despite the region's new-found strengths, Latin America is paying for the sins of the past; at the first sign of instability people dump local currencies and buy dollars in a "Pavlovian reaction", says Damian Fraser of UBS, an investment bank. Even so, several central banks have kept rates steady, rather than raising them, even as currencies slipped. As commodity prices fall and growth slows, inflation should fall and interest-rate cuts should follow next year. Whether they will boost credit is not clear.



The scope for governments safely to spend their way back to higher growth is also limited. Chile is the big exception, having saved $21 billion derived mainly from windfall copper revenues in reserve funds. Its government has unveiled stimulus measures worth $2 billion, including credit lines for small and medium business and, less sensibly, sectoral bail-outs for salmon farmers and housebuilders. On a smaller scale Peru and Mexico have scope to step up public spending. In Mexico's case, that is thanks partly to nifty hedging of its oil exports—earlier this year it presold much of next year's oil output at an average price of $70 per barrel. That may have gained it around $7.5 billion, or almost 1% of GDP, to invest in infrastructure.

Elsewhere, governments will be constrained by falling tax revenues. Brazil's is committed to a primary fiscal surplus (ie, before debt payments) of 3.8% of GDP in order to continue to lighten its debt burden. If it lowers that target, it may compromise the Central Bank's ability to cut its benchmark rate (currently a stiff 13.75%) next year. Worse off are countries such as Venezuela and to a lesser extent Argentina that have squandered much of their commodity boom. The World Bank expects both to grow less than the regional average next year, while Morgan Stanley expects contractions of 1% and 2.2% respectively.

The best that fiscal policy may be able to achieve is to maintain the current level of spending in the face of falling tax revenues, says Augusto de la Torre, the World Bank's chief economist for Latin America. Santiago Levy, his counterpart at the Inter-American Development Bank (IDB), thinks that governments need to start reconfiguring spending to protect the social gains of the past five years. Since few Latin Americans are covered by unemployment insurance this could include training for laid-off workers and temporary employment schemes, such as repairing rural roads. Health care will need boosting, because some Latin Americans will be unable to renew private health insurance. While most of the poorest are nowadays covered by government cash-transfer programmes, those in the third to the fifth deciles of income distribution are now at risk of falling into poverty, Mr Levy says.

In the past few years, the World Bank, the IDB and the IMF have had little work to do in Latin America because governments could raise money in the capital markets. That has changed. All three have unrolled new emergency loan facilities with few strings. In particular, governments could turn to them for credit lines for small and medium companies now threatened by the credit drought. The recent expansion of credit to such companies has helped to boost formal employment and shrink the informal economy, especially in Brazil. This trend now risks reversal.

Most forecasters expect Latin America to bounce back in 2010. Perhaps the biggest risk in the region is of abandoning the recent commitment to prudence. That has never been universal, as Argentina's recent

nationalisation of private pension funds showed. It would be tragic if a slowdown triggered by outside events led Latin America to throw away the economic stability it has worked so hard to achieve.

Remittances to Mexico

The end of the American dream

Dec 11th 2008 | CHINCUA
From The Economist print edition

The recession up north bites in rural Mexico

THERE is a small, artificial lake, well stocked with carp. Around it loom hills covered in pink wildflowers. It looks idyllic. But the hills used to be sown with maize and the wildflowers are a sign that the workforce has left the fields fallow to toil in more profitable ones in the United States. Chincua, a village of some 700 people, is typical of the Mexican state of Michoacán, where remittances from migrant workers account for 12% of the local economy.

Amelia Cerezero, who lives in a one-storey cement shack in the village, looks after her five-year old grandniece. The girl's mother, a building worker in Florida, used to send 1,500 pesos ($110) a week to them. But that stopped recently when she lost her job. And Mrs Cerezero's sister has come back from Florida, reckoning it was better to be unemployed in Mexico.

Recession across the border means that remittances to Mexico fell by 4.2% between January and August compared with the same period last year, according to the World Bank. Surprisingly, Mexico's central bank reckons this trend was bucked in October, when remittances rose sharply. Yet that might be ominous: the rise may come from migrants who have lost their jobs repatriating their savings before returning home.

According to the Pew Hispanic Centre, a think-tank in Washington, DC, the number of illegal immigrants in the United States has levelled off (at just under 12m) after years of growth. That is partly because of the American recession, but also because it is harder to cross the border. Mrs Cerezero and her husband tried repeatedly earlier this year but were caught each time. Now they have given up. Many people in Chincua have opted to stay at home with their families even if that means staying poor, says the village priest.

At least the slide in the value of the peso of around a third since September means that those remitted dollars go further. But that is cold comfort in Michoacán. A shopkeeper in the nearby town of La Frontera says that he used to sell four cases of beer a day, but is now down to two or three. A doctor in a private clinic, where a check-up costs just 100 pesos, says that business is down 30%. Around Chincua, half-finished houses, built bit by bit with money from the north, are the rule. Many now wonder whether they will ever be finished.

Canada

The Liberals try a new leader

Dec 11th 2008 | OTTAWA
From The Economist print edition

Enter Michael Ignatieff, thinker and politician

HOW very unlike itself Canada is behaving. Earlier this month Stephen Harper, the prime minister, brought his Conservative minority government needlessly to the brink of defeat by provoking the three opposition parties to gang up against him. Only by persuading the governor-general, who acts as Canada's head of state, to approve his extraordinary request to suspend Parliament until the end of January was he able to dodge a confidence vote that he was set to lose. Yet this week it was not Mr Harper who lost his job but his would-be nemesis, Stéphane Dion, the Liberal leader.

Mr Dion, a diffident former academic, led his party to its worst-ever result in a general election in October. He had already said he would go, but not until a convention in May. The party's members of parliament were desperate to have a more electable leader in place when the House of Commons reconvenes on January 26th. They pushed Mr Dion to go immediately. To replace him the party's executive chose by acclamation Michael Ignatieff, a writer and former director of a human-rights centre at Harvard University.

Mr Ignatieff, who will officially be an interim leader until the May convention, failed to win the job in 2006. Then he was widely seen as a carpetbagger, having only recently entered politics after three decades living abroad, mainly in Britain. Almost three years as an MP have removed the newcomer label, increased his support within the party and burnished his speaking skills. Unlike Mr Dion, Mr Ignatieff has mastered the art of the soundbite in both of Canada's official languages, English and French. His initial support for war against Iraq, which most Canadians opposed, has receded as a political issue.

Mr Ignatieff's only serious rival, Bob Rae, a former premier of Ontario when a member of the socialist New Democrats, dropped out without forcing a vote. Though Mr Rae is from the party's left and Mr Ignatieff from its right-wing, the two men have long been personal friends. Mr Ignatieff "will make a great prime minister," said Mr Rae.

Before that can happen, however, there must be an election. It may not come immediately. One of the new opposition leader's first decisions will be whether to try to bring the government down over the budget, due on January 27th. He may well decide not to. Mr Ignatieff has been lukewarm about Mr Dion's plan for a coalition government with the New Democrats and with the backing of the separatist Bloc Québécois. The Liberals are deep in debt and need time to rebuild their finances. They may have little appetite for governing when the economy is worsening.

Mr Harper may also be keen to avoid an early election. The Conservatives are strong in the west, but the prime minister once placed his hopes of winning a parliamentary majority in making gains in Quebec. He has further damaged his party's standing there with some sharp criticism of the Bloc and its involvement in the putative opposition coalition.

That seems to have helped the Parti Québécois (PQ), the Bloc's provincial counterpart, do surprisingly well in an election in Quebec on December 8th. Jean Charest, the province's Liberal premier, won a third term, but with only a slim majority. Opinion polls had predicted a drubbing, but the PQ won 51 of the 125 seats in the provincial assembly, up from 36.

Much now depends on whether Mr Harper has learnt from his brush with political death and adopts a more conciliatory approach to the opposition. He has withdrawn from the government's economic statement the measures that most inflamed the opposition and prompted it to unite. But he has refused to accept any responsibility or express any remorse for the mess he has caused. And in helping to push out the hapless Mr Dion, he has landed himself with a more formidable opponent in Mr Ignatieff.

Climate change in Latin America

The accidental environmentalists

Dec 11th 2008 | SÃO PAULO
From The Economist print edition

More reasons to stop deforestation

MORE destructive hurricanes, shrinking forests, melting glaciers, disappearing animals: the prospective damage to Latin America and the Caribbean from climate change makes for grim reading. A new World Bank report, timed to coincide with a United Nations conference in Poland, tries to put numbers to the potential economic cost. ("Low Carbon, High Growth: Latin American Responses to Climate Change," by Augusto de la Torre, Pablo Fajnzylber and John Nash.) By taking the Intergovernmental Panel on Climate Change's predictions for what the planet might feel like in 2100 and then overlaying data from several thousand farms situated in regions of varying heat and dryness, it is possible to make some informed guesses about what the effect on crop yields, and therefore on GDP, would be if temperatures rose and rainfall fell.

Some places in the southern cone of Latin America would gain from such a change. But more would lose out: the authors reckon that left unchecked, climate change might cause a fall of 12-50% in farm revenues by the end of the century. According to another study, this could mean an annual cut in GDP of 0.23-0.56%.

This would worsen rural poverty. It would also entail the shrinking of a number of habitats, whose eventual disappearance would in turn speed up the process of global warming. Four are in the front line: Mexico's Gulf-coast wetlands; the Andean glaciers; parts of the Amazon; and Caribbean coral reefs (they expel tiny algae when sea temperatures rise, which eventually kills them). An increase in malaria in rural areas and dengue fever in cities completes a gloomy picture.

Some Latin American countries are already doing things to reduce net carbon emissions that put them ahead of governments elsewhere. Much of the region's power comes from hydroelectricity and biofuels. The result is that emissions of carbon dioxide per unit of power are 74% lower than in India and China.

There are obstacles to taking these policies further. In Brazil, plans for more hydroelectric dams in the Amazon are opposed by some environmentalists; they claim the resulting flooding of forest prompts methane-producing rotting vegetation. Oil producers in the region stoke emissions by subsidising petrol: it is cheaper in Venezuela than anywhere except Kuwait.

But almost half of the region's emissions come from changes in land use, as forests and grasslands are turned into farms. By contrast, this accounts for only 17% of emissions in the rest of the world. A report for the British government by (Lord) Nicholas Stern, an economist, identified these emissions as cheaper to prevent than most other kinds. Perhaps: "Lord Stern probably does not have a tropical forest to protect," sniffs a Brazilian diplomat.

The economic downturn may make this harder, cutting government environmental spending. But a fall in the price of farm commodities may ease the pressure on the forest. Most of the governments with a toe in the Amazon now accept that they should seek foreign money for schemes to ensure that trees are worth more standing up than they are lying down. All that needs to be done is to find a way to make this work on the front line where the loggers meet the forest, and then to get the rest of the world to pay up.

Bangladesh

After we were so rudely interrupted

Dec 11th 2008 | DHAKA
From The Economist print edition

Having failed to clean up politics, the army gives way to two formidable women

Reuters



NEARLY two years after the army stepped in to end the predatory rule of civilian politicians in Bangladesh, the most visible evidence of that corrupt era is strewn along the streets and dirt roads: unused electricity poles lying about in their thousands. The government of the former prime minister, Khaleda Zia, had bought the poles from a syndicate controlled by Mrs Zia's elder son, Tarique Rahman. Yet the electricity generated during her rule from 2001-06 grew by not a single megawatt, even though the economy's size increased by a quarter. Bangladeshis are, like the poles, still waiting for their electricity.

They are also awaiting a working democracy to tackle some daunting challenges: ensuring adequate food supplies, dealing with climate change and forestalling terrorism. On December 29th some 81m voters get to choose a government in the first parliamentary election since 2001. Yet the army has failed in its effort to topple the dynastic leaders of the two main parties, Mrs Zia's Bangladesh Nationalist Party (BNP) and the Awami League, led by Sheikh Hasina Wajed (pictured above), another former prime minister. These formidable women, the "two begums", have alternated in power since 1991.

Under army-backed rule, each spent a year in detention on charges of corruption. Although these have not been dropped, Mrs Zia and Sheikh Hasina, along with their coteries, are in practice immune from prosecution. Western donors tacitly gave the soldiers two years to fix the mess in Bangladesh's politics and bring the country back to the polls. In return for the interim government not pursuing charges, the parties have agreed to contest the election.

Sheikh Hasina's control of the League remains absolute, and she appears confident of victory. Unlike her less pragmatic rival, she has welcomed back leaders who had dared to plot the party's future without her. The League's share of the popular vote was around 40% in 2001, when the BNP won in a landslide, with 193 out of 300 seats to the League's 62. This time, 37% of voters are considering voting for a different party than in 2001, according to an opinion poll carried out by ACNielsen. The BNP claimed last time to have attracted the vast majority of first-time voters, but little is known about the preferences of 26m new voters this time. In all, nearly a quarter of all voters are undecided.

Despite this, the BNP, harder hit by the army's anti-corruption drive, appears not to fancy its chances. The party has split into warring factions of Zia diehards and those whom she has not forgiven for their disloyalty. The diehards have worked to undermine the polls, accusing the election commission of bias. This week they insisted that convicted criminals be allowed to run for election. If that was unlikely to fly,

the military met another demand on December 10th, as BNP leaders met to consider a poll boycott: it announced that the state of emergency in force since January 2007 would be lifted. Both parties welcomed the move, and the BNP said it was now ready to contest the polls.

Campaigning proper starts on December 12th. As usual, policies will count for less than the ability of local barons and assorted goons to sway voters with a blend of bribes and thuggery. From December 20th the army will deploy across the country. Over 250 international monitors will be present. The main fear is less rigging on polling day than pre-election intimidation: the army locked up tens of thousands of people ahead of municipal polls in August. It still needs parliament to ratify emergency rule and guarantee soldiers' immunity from prosecution. If the League wins, the army is unlikely to stand in the way. In a country where political assassinations are rife, the party needs army protection. Sheikh Hasina will not, says a senior politician, want to pull the tiger's tail.

The League is so confident that it has now dropped from its electoral alliance the Jatiya Party, Bangladesh's fourth-largest, led by a former dictator (and sworn enemy), Mohammad Ershad. Mr Ershad had claimed that the League had offered him the post of president. It now apparently feels it can dispense with his services.

Neither the League, nor probably the army, would accept the result if the BNP won. The generals must fear retribution from Mrs Zia, whom they disobeyed when it became clear that her party was out to rig the January 2007 poll. Supporters of Mr Rahman, he of the unused electricity poles, who left the country for medical treatment following his release from prison with a broken back, want revenge. For now, though, polls by the intelligence services point to a landslide for the Awami League. That will reassure the generals.

North-West Frontier Province

Rogue elephants

Dec 11th 2008 | JAMRUD
From The Economist print edition

Militant strikes wreak havoc on supplies in Pakistan's wild west



THE capital of Pakistan's North-West Frontier Province (NWFP) is living up to its wild-west image. Peshawar lies in a broad, open valley, flanked on two sides by the mountains of Pakistan's tribal areas, from where tribesmen have recently staged forays into its outskirts.

On December 8th up to 200 militants ransacked NATO and American supply depots in Peshawar, setting fire to 100 vehicles carrying supplies destined for coalition forces in Afghanistan. The previous morning they had killed two security guards at another site and reduced some 200 vehicles, including dozens of Humvees, there to a heap of charred junk. Locals report other pilfering.

Perhaps three-quarters of the supplies for Western forces in landlocked Afghanistan pass through Pakistan. Aid for the poor in Afghanistan and Pakistan is also at risk: the World Food Programme complains that 900 tonnes of supplies have gone missing. The latest attacks were reportedly directed from the lawless Khyber and Orakzai tribal areas by Hakimullah Mehsud, a deputy of Baitullah Mehsud, the leader of Pakistan's umbrella organisation of Taliban groups.

In Jamrud recently Tariq Hayat Khan, a gung-ho, chain-smoking civil servant who holds sway in the Khyber tribal area, said he wanted to give the militants a " thrashing"; surrounded by tribal levies armed with rocket-launchers, he was inspecting pickets that he had set up after militants last month seized 12 lorries, whose cargo included four Humvees. The incident led to the Khyber Pass being closed for several days, with a huge backlog of containers building up in ten depots dotted around Peshawar. Mr Khan said that the depots were the weak point in the area's newly beefed-up security.

Beyond Jamrud's mud-walled compounds, in the hazy mountains, is the Taliban's local ally, the head of a big local clan. But even supposedly friendly gangs, said Mr Khan, if heavily armed, can quickly turn into "rogue elephants".

The dangers posed by wayward tribals have hit Peshawar particularly hard, with a spate of kidnappings and murders as well as the depot attacks. On December 5th, just before Eid, which marks the end of Ramadan, a huge bomb blast ripped through a crowded bazaar, killing 30 people and wounding more than 100. In November, an American aid-worker and his driver were shot dead, while militants also kidnapped an Iranian diplomat. NWFP's police chief, Malik Naveed, says his force is underfunded and ill-equipped.

Last month the army said it had expelled militants from 22 of 25 villages around the city. It says operations are focusing on militants in the tribal areas of Bajaur and Mohmand, from where thousands have fled to camps near Peshawar. In Swat, militants embedded in the local population are resisting the

army and continue to assassinate local politicians. This week a suicide-bomber killed a young boy and wounded four other children there. NATO says that co-operation between its troops in Afghanistan and the Pakistani army has never been better. Since tensions flared between India and Pakistan over terrorist attacks in Mumbai, attention has been deflected away from the hullabaloo about continuing strikes by unmanned American drones on targets in Pakistan. But it is a problem that will surely come back to haunt the Pakistani government as it boxes with militants, hawkish nationalists, America and India.

Economist.com WORLD ASIA

South Korea

False god?

Dec 11th 2008 | SEOUL
From The Economist print edition

An online Nostradamus, and the search for his identity

Illustration by Claudio Munoz



BACK in September a message appeared on an online bulletin board owned by Daum, the most popular web host in a country, South Korea, with a huge internet culture. Written by someone called "Minerva", it predicted the imminent collapse of Lehman Brothers, a now-defunct investment bank.

Wild speculation is normally disregarded, but when it proved to be right just five days later, a prophet was born. Word raced through the "netizen" community, and when Minerva went on to predict that the Korean won would fall against the dollar by around 50 won a day in the first half of the week of October 6th, his followers began to watch the currency markets in anticipation. The won did indeed fall by about that much over the next three days.

Minerva became an internet phenomenon, with 40m-odd hits to date. Web-users combed through previous posts, looking for prognostications, and clues about his identity. Sharp comments on the state of the Korean economy and government policy only increased his standing. The media now call him "the Internet Economic President".

The administration of President Lee Myung-bak is frequently accused of authoritarianism by opponents, so it came as little surprise when the finance minister, Kang Man-soo, admitted that officials had attempted to uncover the blogger's identity. Some people believe him to be a senior figure in a financial firm. Others think he may even be a civil servant undermining the government from inside. All Minerva has revealed is that he is a man in his 50s.

With the government on his tail, the Minerva case is no longer just about economic prescience. As one equity analyst in Seoul puts it, "The real issue about Minerva is the government's action…we are not in the 1970s or 1980s!" During that period South Korea was ruled by a military dictatorship, and freedom of speech curtailed.

For now, given the state of Korea's economy—the central bank slashed rates again this week—Minerva's identity has taken a back seat to his more recent predictions. He says the KOSPI 100 stockmarket index, now over 1,000, will drop to 500, and the value of flats in Seoul will fall by half. Such a bearish prospect may appear outlandish but, unlike Cassandra, Minerva has many believers.

India's state elections

Not just about terrorists

Dec 11th 2008 | DELHI
From The Economist print edition

Voters deliver a setback to Hindu nationalists

EVEN as the bullets flew in Mumbai late last month, India's main opposition Bharatiya Janata Party (BJP) attempted to extract maximum advantage from the attack by Islamist terrorists. In Mumbai and Delhi it took out front-page newspaper advertisements which depicted a blood-spattered surface and the words: "Brutal terror strikes at will. Weak government unwilling and incapable to fight terror…Vote for the BJP."

In the end, in four Indian states that held polls after the terrorist attacks, with results released on December 8th, the ghoulish strategy of the Hindu nationalists did not work. The Congress party, which leads India's national coalition, won three of the elections. Most pleasing for Congress, it held on to power in Delhi for a remarkable third consecutive term. It also won Rajasthan, a big northern state, from the BJP; and swept the field in Mizoram, a tiddler in the north-east.

The BJP fared worse, but not disastrously. It kept Madhya Pradesh, a poor northern giant, and Chhattisgarh, another northern state, where polling ended shortly before the terrorists invaded Mumbai from the sea. Losing Rajasthan, which they had hoped to retain, was a blow for the Hindu nationalists, but losing in Delhi was worse. The BJP had been counting on a wave of anti-incumbency in the capital, thanks to fears over terrorism and a slowing economy. Urban, middle-class voters tend to worry more about such national issues, and Delhi has suffered from terrorism attacks itself, with bombs going off in the city in September. Yet the capital's hard-working chief minister, Sheila Dikshit, retained power with ease. The Congress stalwart attributed this to voters' "outright rejection" of the BJP's terror tactics—though her own impressive management of the city deserves most of the credit.

With a general election due by next May, the results will give pause to the Hindu nationalists. For the BJP to retake power at the centre, which to its amazement it lost in 2004, the party will have to do more than harangue Congress on terrorism while depending on the common habit of Indians to throw their governments out. The BJP's main brains, despite the party's clumsy response to Mumbai, have always known this. Terrorism is often an important issue in Indian elections, but rarely a decisive one. According to a survey of voters in Rajasthan by the Centre for the Study of Developing Societies, a think-tank in Delhi, only 46% were aware of the attack in Mumbai, and only 1% said it had made them switch their vote to the BJP. India's 700m-odd voters, mostly poor and rural, have a mass of more pressing local concerns.

This makes it difficult to extrapolate national trends from state polls. In late 2003, for example, the BJP won elections in Chhattisgarh, Rajasthan and Madhya Pradesh—only to lose the general election shortly after. The best that can be said about these latest election results is that they indicate a fairly even split between India's two biggest parties in five states which account for just 73 of the 543 elected seats in Parliament. Indeed, the BJP's prospects in these states are slightly better than Congress's. The Hindu nationalists won a strong majority in Madhya Pradesh, which has 29 seats in parliament, and lost by a narrow margin in Rajasthan, which has 25. Delhi, for all its symbolic importance, controls only seven parliamentary seats.

What is more, in many Indian states neither Congress nor the BJP dominates. In 2004 the two biggest parties secured only a little more than half the available seats between them. A consequence of this is that efforts at forging coalitions are at least as important as campaigning. Here, the BJP is struggling. Since the last election it has been forsaken by important local allies in Tamil Nadu, Andhra Pradesh and West Bengal. To stand a decent chance of winning back national power, it will have to make new alliances—and perhaps also do better in its northern heartland than these recent elections suggest it may.

For its part, the Congress and its coalition partners will feel somewhat relieved by this week's results. Yet the party also has plenty to fear, above all India's slowing economy and its effects on poor Indian voters. A severe slowdown would destroy large numbers of jobs. If that happened, and if there were also another terrorism outrage or two, then Congress's electoral prospects would suddenly look much worse.

India and Pakistan

Getting serious?

Dec 11th 2008 | DELHI
From The Economist print edition

Or rounding up the usual suspects

AFP



Mukherjee underwhelmed

RARELY has Pakistan been called so angrily to account as it has since last month's terrorist attack in Mumbai, for which Pakistan-based terrorists have been blamed. Yet the country's first response seemed clownish. It was revealed this week that its president, Asif Ali Zardari, had put his country's armed forces on high alert after receiving what he believed to be a threatening call from India's foreign minister, Pranab Mukherjee. This turned out to be a hoax. Hugely unimpressed, the real Mr Mukherjee said this was an effort to divert attention from the real problem: that Pakistan harbours Indian-slaughtering terrorists.

India has demanded that Pakistan hand over 20 Islamist militants who it accuses of carrying out attacks on its turf. In response, Pakistan this week detained 20-odd alleged militants, including two members of Lashkar-e-Taiba (LET), an Islamist outfit that was once backed by Pakistan's army to fight Indian troops in the divided region of Kashmir. India says LET was behind the Mumbai attack. Among those arrested in Pakistan was the man said by a surviving Mumbai terrorist, now in Indian custody, to be the mastermind of the plot. He is Zaki-ur-Rehman Lakhvi, accused by America of leading LET operations in Chechnya, Bosnia and elsewhere. Pakistan banned LET in 2002 but has refused to ban its alleged reincarnation, an Islamic charity called Jamaat-ud-Dawa.

For the Mumbai attack, Indian police say LET trained 30 militants for more than a year, in three or four camps in Pakistan. But they say only ten, all Pakistani and nine of them now dead, were used in the seaborne assault, which targeted two hotels and a railway station and claimed over 170 lives. Pakistan does not concede that the terrorists who struck Mumbai were Pakistani nationals or that they set off from Pakistan's territory. It says it would welcome any evidence that the Indians care to share, but that it will not hand over any Pakistani to India.

Many Indians continue to seethe and some are calling for military action against their riotous neighbour. But India's government, led by a peaceable Punjabi, Manmohan Singh, has shown restraint. A military confrontation with Pakistan would achieve nothing good. The trouble is that if Pakistan's government thinks a clash with India is unlikely, it may not try very hard to proceed against the alleged killers of Mumbai.

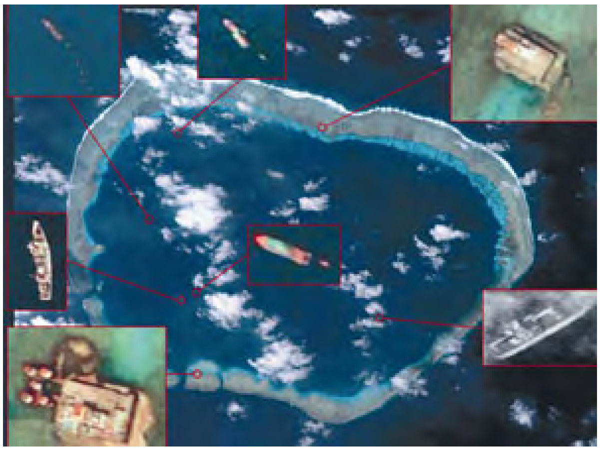
China's Hainan island

Naval gazing

Dec 11th 2008 | SANYA
From The Economist print edition

A curious blend of beaches, babes and naval bases

Reuters



Another view of paradise

FROM rooms facing the sea at the Sanya Marriott Resort and Spa, guests can look out along a sweep of luxury hotels that have sprung up in recent years by what is now China's most famous beach. Officials proclaim that no fewer than four Miss World competitions have been held on Sanya's palm-fringed shore this decade. They are distinctly quieter about the huge new naval base whose concrete breakwater looms beyond the parasailors and jet-skiers out in Yalong bay.

"Don't go near it. It's a military area—very dangerous," says a man renting kayaks. A taxi driver laughs nervously and says he knows nothing about it. Early this year the publication of commercial satellite imagery explained the coyness. It revealed a Jin-class nuclear submarine berthed there. This is a newly developed vessel that can carry a dozen nuclear missiles. The photographs also showed what appeared to be the entrance to an underground harbour that would do credit to a James Bond set. Analysts say submarines can shelter there.

The unannounced construction of the new base, a few kilometres from an older one at Yulin, had long been known about. Yet the pictures attracted considerable media attention. To some, the large-scale facility suggested a menacing ambition. Sanya is on the southern coast of Hainan island and faces the South China Sea, whose waters are contested by several countries, China among them. The sea would be the conduit for any projection of Chinese naval power into South-East Asia and (as officials in Delhi fear) the Indian Ocean, as well as into the Pacific.

The obsession with military secrecy sits oddly with China's efforts to turn Hainan, which is about the size of Sri Lanka and sits on China's southernmost fringes, into an international tourism hotspot. Officials proudly describe the island as China's Hawaii. From the beach, this correspondent clocked a couple of Luyang-class destroyers and a missile frigate. One of the destroyers emerged from the base and steamed cheerfully up and down in front of the hotels.

Strategically vital though Hainan is, in the 1980s Chinese leaders decided that tourism was Sanya's best bet. It was the minister of defence then, Zhang Aiping, who persuaded military commanders to let Yalong bay, then a training ground for marines, be turned into a beach resort. Local officials were dispatched to Honolulu to see how it should be done.

Over the next few years Hainan's tourism industry might open a window on another of the armed forces' preserves. Plans have been announced for the construction of a satellite-launch centre at Wenchang on the island's north-east coast, to be completed in 2012. China's space facilities, including three existing

launch centres, are under military control and are usually off-limits to foreigners. In September, when China staged its first spacewalk, a handful of foreign journalists were invited to the launch—a first.

At least as civilian officials see it, the Wenchang centre will break new ground. The local government is planning a $1 billion space theme park alongside it. It wants to turn the little-known area into a tourism destination to rival Sanya. Chinese tourists have already been allowed to view some of the launches at inland facilities, but Wenchang is hoping to turn itself into a bigger draw. One local official was quoted in the Chinese newspapers proclaiming the future launch centre's distinctive qualities of "commercialism, internationalism and openness".

This might sound familiar to officials in Jiuquan on the edge of the Gobi desert in north-eastern China. They too had big plans a few years ago for a tourism spin-off from the launch centre about 200km (125 miles) away, deep in the desert, from which the recent spacewalk mission was launched. They were disappointed. The centre's military controllers were not keen on visitors. A planned theme park on the edge of Jiuquan remains a wilderness.

Syria

Where shall I go next?

Dec 11th 2008 | CAIRO
From The Economist print edition

The West wants to bring Syria and its leader, Bashar Assad, in from the cold. They may play hard to get

Illustration by Peter Schrank



BEFORE David Miliband, Britain's foreign secretary, visited Syria last month in a sign that its relations with the West are getting less frosty, he said the country faced the choice of being a force either for stability or instability in the Middle East. Yet for much of its 40 years under rule by the Assad family, until 2000 by the father, Hafez, and since then by his son Bashar, Syria has succeeded pretty well in escaping that choice. Too weak to make war, Syria has proved strong enough and patient enough to deny its neighbours peace.

Those weary neighbours, and the bigger powers that back them, may be inching towards a choice themselves. In the past year they all have sent friendly signals to Syria. Their gestures have ranged from top-level visits by European, Lebanese and Iraqi officials, to Israel's engagement in indirect peace talks via Syria's increasingly close friend, Turkey, to Britain's staging in Damascus, Syria's capital, of a world-class ceramics exhibition, on loan from London's Victoria and Albert Museum.

Even the United States, which under George Bush adopted an implacably hostile attitude to Mr Assad, has retracted some prickles. A terrorist-hunting raid across the Iraqi border by American special forces in October, who Syria complained killed seven civilians, has since been downplayed by both countries. Advocates of engaging with Syria have grown more vocal in the American foreign-policy establishment, and look forward eagerly to the departure of figures such as Elliott Abrams, who as Mr Bush's influential deputy national security adviser argued relentlessly for Syria to be shunned; it is widely thought that he told the Israelis, who sought an American green light to start secret talks, to hold off. But another senior American official says the resumption of dialogue with Syria and the incoming administration is so obviously a good idea as to be a "no brainer".

It is easy to explain why everyone was angry with Syria. Under the younger Assad, it has strengthened its 30-year-old strategic alliance with the Islamic Republic of Iran, ramped up weapons deliveries to Hizbullah, the intractable and well-armed Shia movement in Lebanon, and promoted a hardline stand by Hamas, a Palestinian Islamist group that pioneered suicide attacks on Israeli civilians. Syria is accused of trying to develop nuclear weapons (Israel bombed a suspected reactor in 2007) and of sabotaging Western efforts to steady the region in the wake of America's launch of its war on terror, by sponsoring serial assassinations in Lebanon and encouraging insurgents in Iraq. At home, Mr Assad reverted to his father's style after a brief flirtation with liberalism, and sent his critics to prison or exile.

Syria’s sympathisers explained that many of these policies reflected Mr Assad’s fear of being surrounded and squeezed. This was understandable, considering America’s invasion of neighbouring Iraq, the bellicose tone of Mr Bush’s administration, the sudden upsurge of anti-Syrian nationalism in Lebanon that chased Syria’s long-ensconced supporters out of power in a country seen in Damascus as its backyard, and the far greater firepower of Israel, whose occupation of the Golan Heights has been a humiliating thorn in Syria’s side since 1967. Mr Assad felt vulnerable at home, too, presiding over a shaky police state dominated by his own minority Alawite sect, a Baathist party long since denuded of vision, a stumbling socialist economy, and a coterie of spy agencies run like rival mafia clans.

The reasons for Syria’s rehabilitation are subtler. They do not reflect a liking for Mr Assad’s regime, though seeing the agonies suffered by Iraq, a country of similarly sectarian complexity, a grudging respect has increased for Syria’s model of political oppression coupled with religious tolerance. Rather, the thawing of attitudes reflects a recognition of Syria’s importance to a range of the region’s troubles. Simply by remaining unbeaten, Mr Assad has opened minds to the possibility that having his regime on side could cause less damage than leaving it as an enemy.

The attraction of weaning Syria from its spoiler role may have been best described by Israel’s outgoing prime minister, Ehud Olmert. According to Aluf Benn, a columnist in the Israeli daily, *Haaretz*, Mr Olmert struggled in a recent meeting to persuade a sceptical American president that the Golan Heights may be a worthwhile price to pay for a full-blown change in the region’s strategic alignment. Syria, Mr Olmert explained, sat at the crux of two axes, one linking Iran to Hamas via Hizbullah, the other linking such “pragmatic” powers as Turkey, Jordan, Egypt and Saudi Arabia. A switch by Syria would dramatically weaken the extremists, the Israeli leader was said to have concluded.

The heights of delight

Despite repeated denials from Syria that it would be willing to dump its “axis of evil” allies, diplomats say plenty of levers could be used to prompt such a move. Considering his father’s failed effort to recapture the Golan Heights in the 1973 Arab-Israeli war, securing the territory would hugely boost Mr Assad’s prestige. Syria’s economy, which has survived largely thanks to high oil prices, faces a double plunge from collapsing crude reserves and world prices. Foreign investment is vital to dampen unemployment that is unofficially estimated as topping 20%. Syria’s leaders fear, even more than their neighbours, the local influence of the same Islamist groups they sponsor abroad. It does not require much imagination to comprehend their underlying ideological discomfort with Iran. The two countries’ alliance has served both well, but it is solely one of interests rather than belief: these can change.

Yet several variables suggest that the choices, for Syria and everyone else, may be blurrier. Elections in Israel in February could produce a government opposed to any concessions. If prospects for region-wide peace wane, Syria may judge that a return to rejectionism makes strategic sense. The convening in March of an international tribunal investigating the murder in 2005 of Rafik Hariri, a five-times prime minister of Lebanon, could embarrass Syria just when Mr Assad could be being wooed. Trends in Lebanon suggest a return to power, perhaps following elections scheduled for June, of pro-Syrian factions, which could either soothe Syrian fears or bolster Mr Assad’s confidence that he need not change his ways.

Some think he has no intention of doing so, anyway. Walid Jumblatt, the pugnacious Lebanese Druze chieftain who blames the killing of his own father on Assad *père*, recently derided the “stupid illusions” of Westerners who believe that the “wild beast” that they say is Syria’s regime could ever change its stripes.

Israel and Palestine

A pogrom is declared

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From The Economist print edition

Violence over an ancient city could have dire consequences

A VAUNTED "fight unto death" by Jewish militants holed up in a disputed building in Hebron, a city on the Palestinian West Bank that is venerated by both Jews and Muslims, ended in their quick and relatively easy eviction by Israeli police on December 4th. But the Israeli police and army failed to prevent a subsequent splurge of violence against Palestinians in the city and elsewhere in the West Bank, which Israel's outgoing prime minister, Ehud Olmert, termed a "pogrom". A Jewish settler was filmed shooting and wounding two local Palestinians. Israeli security officials gave warning that the anticlimactic end of the Hebron siege could prompt the militants to try even more violent and spectacular methods to promote their cause. And Binyamin Netanyahu, said by pollsters to be the likely winner of a general election due in February, was embarrassed by a fellow member of his Likud party who has climbed up the party's election-candidates list by belligerently backing the settlers.

The building in question is on the road between the Jewish settlement-suburb of Kiryat Arba and a holy site in Hebron revered by Jews as the Cave of the Patriarchs (including Abraham) and by Muslims as the Ibrahimi Mosque. Its ownership is the subject of litigation in Israeli courts between a Jewish settler association which claims to have bought it through a Palestinian middleman, and the Palestinian owner who claims the sale lapsed before it could be completed. The case is complicated by forgeries on the Jewish side and contradictions in the Palestinian's account.

One night in March last year, in what Israel's High Court of Justice called a quasi-military operation, some 150 students at a yeshiva (a school for Jewish religious study) took over the building on behalf of the settler association. They say it was empty; the owner claims they used force to empty it. Last month the High Court ordered the state authorities to remove the settlers and lock up the building pending a legal ruling on its rightful ownership.

But the case has long transcended local and legal arguments to become a *cause célèbre* in the running confrontation between settlers and the state in the wake of the forcible evacuation of Jewish settlers from the Gaza Strip and some parts of the northern West Bank in 2005 ordered by the then prime minister, Ariel Sharon. Young settler militants who still nurse a grudge because of that trauma streamed to Hebron to "defend" the building, making periodic forays into Palestinian areas to stone homes and burn cars.

The settlers call this the post-Gaza "price-tag policy", whereby any attempt by the Israeli authorities to evacuate any settlement is resisted not only by confrontation with the evacuators but also by violent attacks elsewhere against Palestinians and the army. Such tactics have recently led to injury and extensive damage to Palestinian property. Two Israeli army officers were also hurt by settler militants.

The established settlement leadership purported to condemn, or at least not to condone, the militants' behaviour. But it is unclear who leads whom among the settlers. Several right-wing members of Israel's parliament, the Knesset, visited the building in Hebron before the police moved in. And the heads of the Settlement Council of Judea and Samaria, the settlers' preferred name for the West Bank, tried to negotiate a compromise with the defence minister, Ehud Barak, that would have left the Jewish squatters in the building.

This vagueness on the far right threatens to embarrass Mr Netanyahu, whose Likud says it generally opposes the withdrawal of Jewish settlers from the West Bank. In his party's primaries on December 9th, an ultra-hardliner, Moshe Feiglin, was voted into the 20th spot on the Likud's list of candidates, despite Mr Netanyahu's vigorous efforts to block him. Thanks to disciplined block-voting by Mr Feiglin's supporters among party members, the list was notable for its far-right ideological hue. Moderates whom Mr Netanyahu publicly backed were pushed down or out. Mr Feiglin's website, in which he denies the right of Palestinians to nationhood and urges Israel to annex the West Bank, was off the air next morning for "upgrading".

Sierra Leone

Life on 70 cents a day

Dec 11th 2008 | FREETOWN
From The Economist print edition

From a cradle of liberty to one of the poorest places on earth

IN THE main square of Makeni, a couple of hours' drive into the jungle from Sierra Leone's capital, Freetown, young men sit around on their motorbikes, chatting, joking and swapping cigarettes. These are the town's taxi-drivers—okada riders, in the local patois—waiting for a fare. It looks like a scene from anywhere in Africa. But these are no ordinary taxi drivers; most are former fighters from the Revolutionary United Front (RUF), once one of Africa's most feared and barbarous rebel outfits.

Just seven or so years ago some of them, often only in their early teens or younger, usually drugged-up or drunk, would have been committing the cruellest acts against their fellow citizens ever witnessed in the continent. The RUF specialised in cutting off the hands of their opponents for what they regarded as the smallest affront, such as voting the wrong way in an election. Today, some of those victims, their stumps hanging uselessly and conspicuously by their sides, wander along on the opposite side of the street from their former tormentors.



But the fact that the taxi-driving "former combatants", as the authorities call them, have their own jobs and thus a stake in the local economy is seen as a huge step forward in Sierra Leone. It should keep them out of trouble, so the theory goes, and stop them from returning to their old ways. There are about 450 okada riders in Makeni alone. It is a tangible sign, according to the foreign donors who paid for their training, that after a civil war that devastated the country from 1991 to 2002, Sierra Leone is moving forward again.

If only it were that simple. Demobilisation has gone fairly well. Sierra Leone is a less violent place than it has been for a long time; by and large, the rule of law prevails. A special court set up to try the okadas' former commanders, directly responsible for ordering much of the mayhem, is winding down; some are going to jail. Moreover, the country has had two peaceful elections in a region not famed for democracy. Yet in many ways, despite the relative peace, Sierra Leone's problems remain as intractable as ever, leaving those responsible for keeping the country on life-support wondering what to do next.

For, despite the progress, Sierra Leone remains, according to most evaluations, one of the poorest places on earth. It has just earned, once again, the distinction of being the world's least developed country (for where statistics are available), according to the United Nations Development Programme's annual survey. Aid workers reel off the wearily familiar statistics: maternal mortality rates are the world's highest; so are mortality rates for the under-fives; life expectancy is only a touch over 40; probably two-thirds of

women are illiterate; over 70% of Sierra Leonians get by on less than 70 American cents a day. Moreover, few trends are moving fast the right way. The best improvement is in primary school enrolment but completion rates are much lower; few go on to secondary school, and no more than about 5% of these go on to higher education.

Since a peace deal in 2002, foreign donors, led by Britain, the former colonial master, have been giving generously. But so far they have merely staved off a collapse. The roots of conflict—chronic poverty, youth disenchantment and huge regional disparities—still go deep. Until they are tackled, Sierra Leone will remain a fragile state at best.

Above all, it needs jobs. Probably less than a quarter of adults have "formal employment", loosely defined; the okada drivers are the lucky ones. With no regular income, the mass of bored, listless youths will be tempted to join the gangs and rebel armies that used to fight for the control of the country's extensive diamond fields, mainly in the south-east. Giorgio Biguzzi, the Catholic bishop of Makeni, who helped to set up many of the best post-war peace and reconciliation programmes, says "the real healing is to provide people with opportunities".

But where will the jobs come from? Before the war, Sierra Leone had more than 30 factories or processing plants. Now it has four: brewing, bottling and making concrete. With its fertile soil, agriculture should do well. But in ten years of civil war many of its foreign markets for such products as coffee and palm oil were captured by competitors. The diamond mines provide jobs but they are well away from the main population centres. Few outsiders will invest until the country has regular electricity; at the moment, what little electricity there is usually comes from expensive diesel generators. A new dam and hydroelectric power station crawl towards completion. But these have taken more than 30 years to build, so no one is betting on them joining the grid yet.

Clean those hands

Better governance would help. Chronic corruption and incompetence in government turned many against the authorities in the civil war. Progress to improve matters is unsurprisingly patchy. The bribes do not have to be very big when a mid-ranking official takes home about $70 a month, a nurse $50. The new government, elected last year, has appointed an energetic head of the previously discredited Anti-Corruption Commission, Abdul Tejan-Cole, so there is some hope that he, along with a more general reform of the public service, will make government more honest and efficient. A new anti-corruption law has been passed, expanding his powers and increasing the number of offences from a meagre nine to a more belligerent 29.

Those who are trying to strengthen the country's institutions and economy know they are in a race against time. The region's warlords are being replaced by drug lords, many from Colombia. Circling like vultures around weak states, they are starting to use Sierra Leone as a base to ship drugs on to Europe and beyond, with all the corruption and violence that will come with it. A country like Guinea-Bissau, just up the coast, has already fallen prey; it is now almost a "narco-state". There was alarm earlier this year when an aircraft carrying almost 700kg (more than half a ton) of cocaine was caught at Freetown's airport. Nineteen people, including customs officials, were arrested, and the minister for transport is still suspended. In a desperately poor country such as Sierra Leone, drug money will quickly gnaw its way through the legislature and bureaucracy. Long, porous borders with Guinea, an equally fragile neighbour, add to the concerns.

Originally a pioneering colony of freed British slaves, Sierra Leone has as much right as Philadelphia or Paris to be thought of as a cradle of modern liberty. Here, in the 1790s, blacks voted for the first time in elections, as did women. Yet today their descendants still face a daily struggle for survival, let alone liberty.

Ghana's elections

Hold your breath for a bit longer

Dec 11th 2008 | ACCRA
From The Economist print edition

A second round of voting could be tense

IT WAS always likely to be close, but few guessed it would be as close as it was. In Ghana's presidential election on December 7th, the candidate of the ruling New Patriotic Party (NPP), Nana Akufo-Addo, got just over 49% of the vote, while his opponent, John Atta Mills of the National Democratic Congress (NDC), got nearly 48%. Since neither crossed the 50% threshold to win outright, a run off will be held on December 28th.

So Ghanaians are on tenterhooks. But the conduct of the election, after the electoral mayhem in Zimbabwe, Kenya and Nigeria during the past year-and-a-half, matters as much as the result. So far, so good. International observer groups praised the poll for being peaceful and well organised; the national election commission did a good job. "Ghana has consolidated its democracy," said the European Union's chief observer, Nickolay Mladenov.

It is too soon to presume that harmony will prevail. Polling day in Kenya was quiet; the refusal of either big party to accept defeat was what sparked the violence. The closeness of Ghana's result is sure to make both parties scramble feverishly for every vote to win the second round; that is when trouble may yet occur. There is no love lost between the NPP and the NDC, which feels strongly that after two terms out of office it is due for a return to power—and will probably feel cheated if it does not get it. "We are in for a hell of a time," says Emmanuel Gyimah-Boadi of the Ghana Centre for Democratic Development.

Other signs were more encouraging. The failure of some senior MPs from all parties to retain their seats in the general election showed that voters were keen to punish parliamentarians for their failings; incumbents may be less complacent in the future. And the ethnic factor was much less potent than in many elections elsewhere. Though the turnout, at 70%, was lower than last time, in 2004, when a record 85% voted, this was probably thanks to a rigorous clean-up of the electoral register. This time fewer votes were cast by the under-age, the multiply-registered and the dead.

South Africa

A dent in the ruling party

Dec 11th 2008 | PAARL
From The Economist print edition

Some notable wins by a breakaway party have rattled the ruling one

A STATUE of Nelson Mandela stands at the gates of Groot Drakenstein prison, outside Paarl, in South Africa's Western Cape province, his fist raised in triumph as it was when he walked free from the jail in 1990. Apartheid was sagging and his African National Congress was in the ascent. Now, after 14 years of rule and amid growing factional strains, the ruling ANC has for the first time been thrashed at the polls.

In by-elections prompted by the expulsion or resignation of local councillors to join a breakaway party, the Congress of the People, known by the acronym COPE, the ANC has been thumped by a rival party. Of 27 seats in the Western Cape, where most of the contests took place, the ANC, which previously held all of them, won only three (and failed to compete in 12); COPE won ten and the Democratic Alliance, a liberal party which is the main opposition in Parliament, won nine.

Whether COPE, whose right to the name is being contested by the ANC in the courts, will grow fast enough to eat into the present huge ANC majority in Parliament at the general election expected next year is hard to predict. But COPE's early boost suggests that, as a mainly black rival, it has the potential to muck up the ANC's hitherto formidable electoral machine.

"The people are frustrated with the ANC," says Edmund Pheko, one of the defecting Drakenstein councillors. "They feel it has betrayed them for the past 14 years." Indeed, many South Africans say the ANC is failing to bring material benefits along with the freedom of democracy. Moreover, many ANC people, they complain, have got too rich. Though millions of houses have been built, grumbles about the paucity of "service delivery" are getting louder.

However, though COPE seeks to capitalise on such discontent, its formation, after the ANC sacked Thabo Mbeki as the country's president, also has much to do with personal interests and ambitions. In Paarl, people point out that some of the splitters had been denied places on the municipal executive committee, which brings a salary more than double that of an ordinary councillor.

Such observations are echoed nationwide. "Quite a lot of people couldn't afford to lose at Polokwane [a northern town where Mr Mbeki lost the party leadership to Jacob Zuma a year ago] and don't have anywhere else to go," says Anthony Butler, a professor of public policy at the University of Cape Town. Provincial party purges by the new elite have seen the "complete disruption of the patronage networks that have been put in place", he adds. "There was a fear of being out of politics, out of government, out of business."

In any event, COPE's arrival marks a big change, offering more of a choice, especially for black voters, in a system where identity and history have been the main influence on voters since apartheid ended in 1994. The risk, though, is that COPE may succeed only in the Eastern Cape, which is dominated by Xhosa-speakers, the group to which Messrs Mbeki and Mandela belong, and in the Western Cape, where (mixed-race) Coloureds predominate. Mr Zuma is a Zulu. Some fear that a geographical concentration could lead to South African parties being identified with ethnicity rather than political ideologies; that raises the prospect of tribalism, which the ANC has always fought against.

Greece's riots

They do protest too much

Dec 11th 2008 | ATHENS
From The Economist print edition

Youth riots across Greece demonstrate why the country needs to change

AP



GREECE prides itself on the robustness of its democracy. Despite frustration over the number of traffic-choking demonstrations outside parliament (the average is said to be two a week), most politicians like to stress that modern Greeks' enthusiasm for protest shows an admirable continuity with the golden age of Periclean Athens. The trouble is that protests so easily turn violent. Sometimes a group of hooded young men, who style themselves "anarchists", bring up the rear of a march. They carry metal bars and petrol bombs. Ritual clashes with riot police ensue, shop windows are smashed and tear-gas fills Syntagma Square for a few hours.

This week's violence was on an unprecedented scale. It erupted after Alexandros Grigoropoulos, a 15-year-old schoolboy, was shot dead by a policeman in Exarchia, a scruffy central district of Athens known as the anarchists' home base, on the night of December 6th. Shouting insults at police in their patrol cars is a weekend sport for some Athenian youths. The police are meant to stay cool: the last time a policeman killed a teenager was in 1985.

This time protests over the shooting quickly spilled into the main streets of Athens, and thence across the country. Roving groups of anarchists torched cars, broke shop windows decorated for Christmas and tossed in petrol bombs. Beyond the capital, demonstrators attacked police stations and public offices in a dozen cities.

The pent-up anger of Greece's youth, matched by the anarchists' taste for mayhem, triggered five nights of riots, causing damage estimated at more than €100m ($130m). Hundreds of school students battled with police after the teenager's funeral in a plush seaside suburb. Others threw stones at policemen on guard outside parliament, shouting "let parliament burn".

Appeals for calm by Costas Karamanlis, the centre-right prime minister, were mostly ignored. Fearful of provoking even broader dissent, he refused to take such tough measures as imposing a curfew or ordering blanket arrests, on the ground that they might smack of the military dictatorship in the 1970s. Talks among political leaders in pursuit of a consensus on how to quell the unrest swiftly broke down. On December 10th a long-planned 24-hour strike by public-sector unions went ahead despite Mr Karamanlis's televised call for it to be cancelled. George Papandreou, the opposition Pasok leader, urged the prime minister to resign and call a general election. "Effectively there is no government…we claim power," he said.

Mr Karamanlis was already vulnerable. His New Democracy party controls only 151 of the 300 seats in parliament and trails Pasok by four or five points in the opinion polls. For all his party's weakness, the prime minister's personal approval rating has so far stayed well ahead of Mr Papandreou's. But with his image as a safe pair of hands in tatters, that may now change. Small family-owned businesses and retailers, the backbone of support for New Democracy, are furious at the failure of the police to protect their property.

The government is also facing mounting criticism over a string of financial scandals. Even as protesters rampaged, a parliamentary committee was taking evidence in a scandal over an illegal government land swap carried out with Vatopedi monastery on Mount Athos. Senior ministers are said to have diddled taxpayers out of some €100m while handsomely lining their own pockets. Two have resigned already: George Voulgarakis, the merchant-marine minister, whose wife acted as a notary for the deal, and Theodoros Roussopoulos, the government's spokesman.

Yet New Democracy could still stagger on. Mr Papandreou's Pasok is split between European Social Democrats and populist nationalists. The latter currently have the upper hand. It would take only two New Democracy defections to bring down the government, but opinion polls suggest that Pasok would be unlikely to win an election outright. And even its supporters are doubtful that a coalition with Syriza, a left-wing party led by Alexis Tsipras, a 34-year-old who has never run for parliament, would work.

Mr Karamanlis has cruised through two elections and four-and-a-half years in power on the strength of Greece's economic growth, averaging over 4% a year up to 2007. Yet this reflected reforms by Costas Simitis, his Pasok predecessor, to get Greece into the euro. Greek shipowners made record profits from China's export boom; Russian oligarchs bought expensive land on Aegean Islands.

The feel-good factor allowed the conservatives to ignore the pressing case for social reform, particularly in education, health and policing. But as the global slowdown takes effect, young Greeks see their parents struggling to pay the bills. If they cannot afford to study abroad, they get lousy tuition at a Greek university and, unless their family can pull strings, few chances of a good job. The unemployment rate for young graduates is 21%, compared with 8% for the population as a whole.

Inadequate policing has allowed anarchists to flourish in Exarchia, which has become a haven for drug-dealers and racketeers. The anarchists have also exploited a constitutional loophole that bans police from university campuses. As a result, demonstrators can regroup behind barricades at the Athens Polytechnic and pick up fresh supplies of petrol bombs before heading back onto the streets.

Mr Karamanlis's attempt to scrap this "university asylum" two years ago failed because he could not win enough cross-party support to change the constitution. Another set of university reforms collapsed when a majority of professors refused to make any commitment to higher teaching standards and submit themselves to peer review. The street violence may fade but Greece's frustrated students are unlikely to stop protesting for long.

Turkey's politics

No contest

Dec 11th 2008 | ISTANBUL
From The Economist print edition

The Turkish prime minister's biggest asset is his opposition

FOR two decades, the leader of Turkey's opposition Republican People's Party (CHP) has cast himself as the sole politician who can defend Ataturk's secular republic against creeping Islam. So the sight of Deniz Baykal recruiting a woman in a full black chador at a CHP gathering and saying, "We must show respect for people's [choice of] dress," has rocked the country's secular establishment. "We will never get used to this," quavered Necla Arat, a CHP deputy.

Mr Baykal has consistently opposed moves to let girls who wear the Islamic-style headscarf go to public universities. It was he who successfully asked the Constitutional Court to throw out a law passed by the ruling Justice and Development Party (AKP) to relax the headscarf ban. He also said Abdullah Gul was unfit to be president because his wife covers her head, and egged on the generals when they threatened a coup to stop Mr Gul. So why the change of heart?

Most believe that Mr Baykal's new tolerance is linked to Turkey's local elections next March. Since he took charge of the CHP in 1992, Mr Baykal, who is now 70, has not won a single election. His ideas are old, his officials are out of touch.

The lack of a credible secular opposition is widely seen as the biggest failing in Turkey's democracy. Even some generals are said to want Mr Baykal out. The maze of party rules that he has devised has made Mr Baykal almost impossible to unseat, but discontent is brewing. Kemal Kilicdaroglu, a CHP deputy who has exposed corruption inside the AKP, is a rising star. If in March the CHP fails to improve on the 21% it took in the 2007 general election (against the AKP's 47%), Mr Baykal's days may yet be over.

This prospect seems to have galvanised him into embracing his pious sisters. But Mr Baykal's last-minute manoeuvres are unlikely to sway voters. Their big worry now is not secularism but the economy. After much wobbling, the Turkish prime minister, Recep Tayyip Erdogan, has at last agreed to renew a standby agreement with the IMF that expired in May. The final touches will exclude the sort of pre-electoral spending spree that an increasingly truculent Mr Erdogan had hoped for. His erratic performance of recent months is beginning to take its toll. Yet so long as Mr Baykal remains his chief opponent, Mr Erdogan will have little to fear at home.

Russian Orthodoxy

Farewell, middle roads

Dec 11th 2008
From The Economist print edition

Russia's next patriarch may be harder-line than Alexy II

EPA



Last rites for Alexy

LIKE most Orthodox Christian rites, the funeral of Patriarch Alexy II on December 9th was a mix of choreography and spontaneity. Massed choirs and sad dignitaries, including Russia's political leaders, packed the incense-laden interior of Moscow's cathedral of Christ the Saviour: not the loveliest but perhaps the best-known of the 20,000 or so Russian Orthodox churches to be built or rebuilt on the patriarch's 18-year watch. For all the formality, there was nothing scripted about the way Alexy's fellow bishops took turns to lean over his open coffin and sob as they bade farewell. In the Russian Orthodox world, many will miss the prelate who oversaw the church's revival after acting, in his early life, as a loyal servant of the Soviet state.

But people outside that world may ask—miss him for what? By no Western standards could the patriarch be described as an enlightened or reformist figure. Westerners who welcomed the restoration of religious freedom in post-Soviet Russia were often dismayed by the cosy relations that Alexy's church enjoyed with the Kremlin. They winced when he disciplined or defrocked liberal Russian priests; they were disappointed by the church's support for a 1997 law that curbed the activities of "non-traditional" faiths—like non-Orthodox forms of Christianity.

Inside the church, things looked rather different. On the church's ultra-conservative fringe, Alexy was excoriated for being too pro-Western. An emollient speech that he made to New York rabbis in 1991—stressing the common past of Christians and Jews—was held against him by zealots. When he merely disciplined liberal priests, the hardline camp said that he should have excommunicated them. Typical of Alexy's "middle road" was his reaction to the burial in 1998 of bones that the government, after DNA tests, deemed to be those of the slain royal family. Ecclesiastical hardliners said the bones were not those of the Romanovs, but Boris Yeltsin wanted a funeral. Alexy declined to pronounce on the bones' identity but agreed to their burial anyway.

What lies ahead for the Russian church, which has seen a surge in its visible strength—at the price, some say, of forfeiting all ability to speak truth to power? In late January bishops from Russia, Ukraine and the Slavic diaspora will meet to elect a new patriarch. The ostensible favourite is the current *locum tenens*, Metropolitan Kirill of Smolensk, a tough and sophisticated practitioner of geopolitics as well as politics of the ecclesiastical sort. He has fought Moscow's corner in a contest with the Istanbul-based Ecumenical Patriarchate for sway over eastern Christianity. (Curiously, Britain is one of the arenas where that competition is going on. An English court is due to rule next year in a dispute over the assets of a diocese of the Moscow Patriarchate, whose acting leader, Bishop Basil Osborne, left Moscow's jurisdiction for Istanbul's in 2006, along with a group of priests and faithful. The bishop has said he wishes that the matter could be solved by negotiation or arbitration.)

Other bishops in the running to take over from Alexy include two senior insiders: Kliment, seen as a cautious conservative, and Juvenaly, a veteran of the Soviet era who has epitomised the enigmas of Orthodoxy by seeming to be a loyal son of the state, while acting in private to protect the church's liberals. People make similar claims of Metropolitan Filaret, head of the church in Belarus. And some say of the patriarchate the same thing that Kremlinologists often say of Russia: the next leader could be a dark horse, so conservative that today's players will seem like bleeding-heart softies.

A hard winter

Dec 11th 2008 | ERGNETI AND TBILISI
From The Economist print edition

Political recriminations still fly over responsibility for the war with Russia

OUTSIDE the village of Ergneti, on the edge of South Ossetia, a new border is taking shape. First the Russians and South Ossetians fortified a checkpoint on their side of the road with camouflaged dugouts sprouting tricolour flags. Now the Georgians are following suit. A crane is lowering breeze-blocks on to the road, next to a mountain of orange sandbags.



A bleak winter landscape is settling across Georgia. Russian troops remain hunkered in Akhalgori, just 25 miles (40km) from Georgia's capital, Tbilisi. The first of some 30,000 Georgians who fled South Ossetia during the August war are now moving into box-like cottages in an archipelago of refugee camps spread across northern Georgia. The outgoing secretary of Georgia's security council, Alexander Lomaia, says that "80-90% of our time goes on dealing with the consequences of the Russian invasion."

Mr Lomaia has just been moved in a big government reshuffle. This represents yet another attempt by the hyper-energetic Georgian president, Mikheil Saakashvili, to reassert his authority. The most notable changes were that he sacked his defence and foreign ministers. But he risks running out of capable staff. Grigol Vashadze is his sixth foreign minister in five years. Only a small inner circle of hawkish figures, including Vano Merabishvili, the interior minister, remains untouched.

Many disgruntled political and official figures have joined an opposition that looks more purposeful than before. The recent resignation of Georgia's ambassador to the United Nations, Irakly Alasania, who won much respect as Georgia's negotiator on Abkhazia, was a significant boost to the opposition. But the most prominent voice now is that of Nino Burjanadze, a former speaker of parliament and, along with the president, one of the two surviving leaders of the 2003 "rose revolution". Her best asset is a demeanour of steely calm that contrasts favourably with the aggressive style of her former allies. She talks of a "virtual reality in which they want Georgia to live and in which they live themselves". But her policy prescriptions are vague. On the question of how best to handle relations with Russia, for example, she says blandly that "We have to defend the interests of Georgia through dialogue, diplomacy and by working with international organisations."

The démarche of Erosi Kitsmarishvili, a former Georgian ambassador to Moscow, has also unsettled the president. He put in a storming appearance before a parliamentary commission investigating the August war, saying that Mr Saakashvili had planned a military operation against Abkhazia earlier this year and had ignored promising overtures from his Russian counterpart, Dmitry Medvedev. Mr Kitsmarishvili's testimony was more damaging because it was broadcast live on national television, whose news coverage is usually biased towards the government.

Indeed, opposition leaders say their first goal is not a new election but a liberalisation of the electronic media to allow proper political debate, and a loosening of government control over the election machinery that has helped Mr Saakashvili to win twice in the past year. Ivlian Khaindrava, the sharpest thinker in the opposition, comments: “After an event as serious as the August conflict, the people have the right to have the chance to express their views. Usually that would be through elections. But if we had elections now with the situation we have in the media, with electoral commissions and with the courts, we would merely get the same result.”

Georgia could certainly do with a break from its political turmoil. In the country beyond Tbilisi, where Mr Saakashvili draws much of his backing, support for the government has dropped. But the mood is more confused than revolutionary. A farmer in the village of Megvriskhevi, near the South Ossetian border, says that earlier this year 80% of the villagers voted for Mr Saakashvili, because of the practical benefits he delivered, such as a new gas supply. Now, he says, they merely want somebody to acknowledge publicly that the country has suffered a disaster—and that the culprits should take the blame.

Italy's public debt

The ogre in the attic

Dec 11th 2008 | ROME
From The Economist print edition

Fretful markets fear the worst

ITALY'S public debt, the world's third-biggest, equivalent to over 104% of GDP, is not so much the elephant in the living room as the ogre in the attic. The fear has long been that it could escape and wreak havoc, not only in Italy but also across the entire euro area. On December 3rd came what some took to be an ominous rattling of the attic door.

It took the form of an answer by Silvio Berlusconi's welfare minister, Maurizio Sacconi, to suggestions that he was at odds with the finance minister, Giulio Tremonti, over how much to spend on stimulus measures. Denying that there was any conflict, he said "I too am constrained by the public debt. And I too am worried by the risk of default." Seemingly unaware of the possible effect of his words, he added: "There is something worse than recession, and that's state bankruptcy: an improbable, but nevertheless possible, hypothesis." If the Italian Treasury were unable to find buyers for Italian sovereign bonds, said Mr Sacconi, Italy could go the way of Argentina, which defaulted in 2001.

The sovereign-bond market has certainly become more testing for sellers of debt. Numerous countries, many with far better credit ratings than Italy, need to raise cash. But if the yield on Italy's bonds goes up, the government may end up paying more in interest, and that increases the risk of the budget deficit getting out of hand. Were this to happen, it would further erode investors' confidence, prompting them to demand still higher yields.

Amid the outcry that followed Mr Sacconi's remarks, Mr Tremonti denied that there was any danger of default. But on the same day he himself confirmed that the risks had grown. He told a parliamentary committee that the "sole constraint" on government spending was no longer the European Union's Maastricht rules that cap budget deficits, but the limits imposed by the markets. Indeed, fears have been expressed that the start of what financiers call "adverse debt dynamics" can already be discerned in a sharp widening of the spread (the difference in yields) between the ten-year German bund and its Italian equivalent. On December 5th this peaked at 144 basis points—up from a low of 38 basis points at the end of May (see chart).

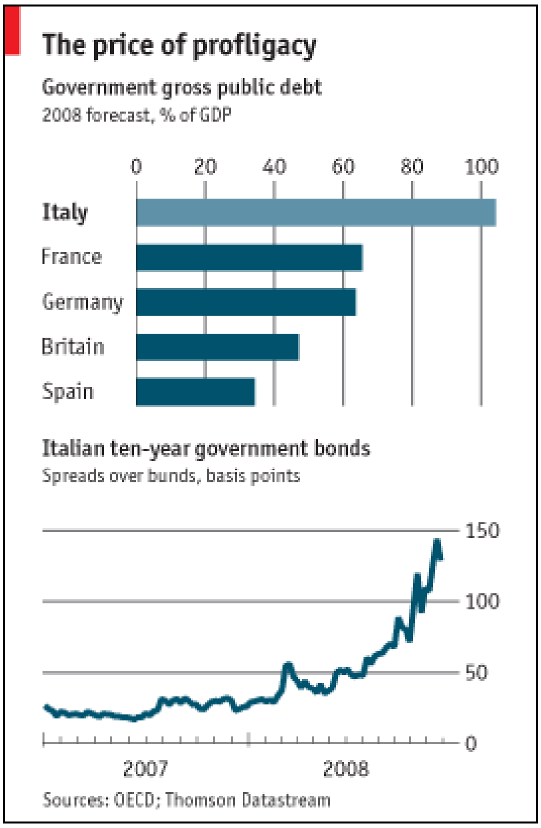
Yet Brian Coulton of Fitch, a rating agency, points out that this reflects falling German yields (as investors seek ultra-safe havens) rather than rising Italian ones. "The current yield on Italy's ten-year bonds is the same as it was at the end of 2007," he notes. Since the launch of the euro, moreover, Italy's debt managers have managed to extend the average term of its borrowing to almost seven years, locking in then-prevailing interest rates and ensuring that less of the outstanding debt is subject to abrupt rate increases.

Thanks in part to retrenchment under the previous centre-left government, Italy's public finances are no longer in the parlous state they were in a few years ago. In the spring Mr Tremonti rammed through parliament a three-year spending plan that included deep cuts. That leaves two questions. One is whether he can make his cuts stick. The other is what will happen on the revenue side of the ledger. In a recession tax revenues can be expected to fall. But how much?

In part, the answer will depend on the sensitivity of the public accounts to changes in growth. Tax revenues soared under the centre-left. But as Mr Coulton points out, it is not clear how much of this increase was structural (the product of enduring

improvements in tax collection) and how much cyclical (the result of a temporary upswing in the economy).

The other variable is the depth of the recession. Most forecasters believe that it will be shallower in Italy than in Britain (though deeper than in France or Germany). But Mr Berlusconi's anti-recession measures have been distinctly modest (involving extra net spending of only some €6 billion). And the reason that he withdrew his pledges of more aid was that Mr Tremonti reminded him of the limitations imposed by Italy's €1,575 billion of debt. The ogre is still there, even if for the time being it is safely chained.



Minorities in France

In praise of airness

Dec 11th 2008 | PARIS
From The Economist print edition

Lessons from a minority success story in France

EVER since the election of Barack Obama as American president, Europeans have been frantically seeking to disprove the theory that a comparable minority success story is unthinkable in the old world. Germany's Green Party has just elected a new co-leader of Turkish origin, Cem Ozdemir. France likes to point to three government ministers of Muslim origin, including Rachida Dati in charge of justice. Yet the French parliament has just one non-white deputy from the mainland. And business is not much more enlightened, with most of the top managerial jobs still going to the old technocratic elite.

Which is why the story of Malamine Koné, a black French businessman, and his company, Airness, is remarkable. Mr Koné's family arrived in France from Mali in 1982, when he was ten years old. His father was a mechanic, and he and his eight siblings were brought up in a rough Parisian *banlieue*. His dreams of becoming a professional boxer were dashed by a serious car accident. Instead, he decided to take on a different set of sporting opponents: Nike, Adidas and the rest. He launched his own sportswear brand, calling it Airness after Michael Jordan's nickname ("His Airness") as a nod to the basketball star's gravity-defying powers. In 1999 he began hawking his sweatshirts around stores in the *banlieues*.

Airness now has an annual turnover of some €120m ($155m) and a swish office off the elegant Avenue Montaigne. This season it is co-sponsoring three first-division French football clubs and Nikolay Davydenko, a Russian tennis star. Clever licensing deals have put its black-panther logo on children's backpacks in posh playgrounds, as well as on hooded tops in the *banlieues*. A new range of Airness perfume and deodorants for men, made by L'Oréal, a French cosmetics giant, has been flying off the shelves.

Mr Koné has no illusions—his sales are still dwarfed by those of Adidas and Nike. But for a *banlieusard*, set "to fail, or end in jail", as one French rapper has it, it is no slight achievement. "If you come from the *banlieues* and say you want to rival Nike you have no credibility," he says. "You have to work twice as hard."

It would be seductive to read into Mr Koné's story evidence of France's establishment opening up to outsiders. Yet he has in fact relied on a classic route out for minorities: sport. In the early days, with no money for marketing, Mr Koné used his sporting and French-African ties to persuade upcoming black footballers, such as Didier Drogba or Djibril Cissé, to wear his clothes off the field, when their sponsorship contracts allowed. This gave Airness the cool that then drove sales.

Mr Koné puts his drive down to the discipline of sports training. "Sport is about challenge, and daring, and surpassing oneself," he says. "Those are my values, and those of the brand." He accepts that France gave him a high-school education and his family a second chance. Other than that, he has made his own way. "The French system is more rigid, more cautious and less risk-taking than the American one," he says. "In France, the entrepreneur is afraid of failure." Airness has succeeded despite the closed French elite, not because of it.

Charlemagne

The left's resignation note

Dec 11th 2008
From The Economist print edition

Why the left in Europe is not benefiting from the economic crisis

Illustration by Peter Schrank



SOCIALISM in Britain died in 1983. Its demise can be dated to that year's Labour Party election manifesto, branded "the longest suicide note in history". This document combined ideological purity (highlights included the creation of a planning ministry, withdrawal from the European Community, exchange controls to stop capital fleeing overseas and unilateral nuclear disarmament) with a lunatic disdain for what voters wanted.

Today questions are being asked about the health of the European left, as the deepening recession fails to boost Socialist parties across the European Union. This baffles many. After all, the Anglo-Saxon obsession with untrammelled markets has been exposed as madness—or so leftist bigwigs claim. Across the capitalist world, once-strutting tycoons are begging for state bail-outs. Yet voters are not flocking to mainstream centre-left parties. A recent column in *Libération*, a leftish French newspaper, moaned that this was not just a "paradox" but an "injustice".

For a clue to what is going on, consider the manifesto adopted earlier this month by the EU's centre-left parties for next June's European election. It is punchy enough, accusing conservatives of "blind faith in the market". Under the banner of the Party of European Socialists (PES), the left touts lots of new regulations on finance, including limits on "excessive risk-taking and debt". (Just how regulators would detect "excessive" risk in advance is left unexplained—plenty of banks would love to know the answer.)

A motif runs through the PES manifesto, offering a move away from "unregulated markets" towards the regulating wisdom of public authorities. And there lies the left's problem. For the real argument is not one of markets v state. Even before the crash, that was a false choice: every capitalist economy has a mix of regulation and liberalism. Now the boundary lines are blurred everywhere, as banks are nationalised and cash is shovelled to favoured industries. Instead, the big divide is over globalisation, and whether to resist or embrace competition between different countries. On that front, the PES manifesto is a muddle. Indeed, it could be dubbed one of history's longer letters of resignation.

As successive European economies tumble into recession, the thing that most frightens and angers workers is the risk of losing their jobs to lower-cost rivals. The PES manifesto dances around this issue. It talks of "managing" globalisation for the benefit of all and using Europe's combined size and wealth as a labour market to defend "high social standards". But it does not promise to stop factory closures or lay-offs.

This silence has two explanations. First, Europe's centre-left parties are split over how best to protect

jobs. At a meeting in Madrid to draft the PES manifesto, some west European parties wanted language about limiting the free movement of workers within the EU, says Denis MacShane, a British parliamentarian who represents the Labour Party in the PES. But representatives from new, lower-cost EU countries like Hungary, Poland and Lithuania rejected these ideas, insisting "free movement is one of the best things about the EU." In the end, PES leaders fudged it, with a clause saying merely that reduced social standards and wage cuts should not give one country a "competitive advantage" over another "at the expense of workers".

In Britain and the Nordics, centre-left politicians have moved away from protecting existing jobs towards protecting individual workers (through things like retraining if they are made redundant). Elsewhere, socialists still claim that the might of the state can be used to shield workers directly. In France some want laws to ban companies that are in profit from making workers redundant. Portugal, one of the four EU countries with a majority centre-left government, has unveiled plans to subsidise wages in the car industry for up to a year, as production lines are idled.

Such strategies are, alas, fated to collide with the second explanation for the PES's silence: that efforts to resist globalisation rarely work for long. In their guts, European voters know this. When factories are earmarked for closure, workers may protest, and may even hope that leftist leaders will join the picket lines. But the factories tend to go anyway.

Driving the social model into the ground

The proudest trophy of the left is the European social model, a web of labour and welfare laws offering a "high degree of social protection". The model emerged during the post-war boom, when living standards soared across western Europe. In his book "Postwar", Tony Judt, a New York-based British academic, lists many causes: governments turned away from protectionism, people started having lots of babies, energy was cheap and Europe had much catching up to do (in 1957 only 2% of Italian homes had a refrigerator, but by 1974 94% did).

Crucially, the European social model also enjoyed an amazingly low degree of external competition. In 1960 a West German car worker had little to fear from Eastern Europe or Asia. Skodas and Nissans were pretty horrid; Chinese workers were lost to the madness of Mao. When China, India and the ex-Soviet block joined the capitalist world three decades later, the global labour pool grew from 1.5 billion to 3 billion: an explosion called the "great doubling" by Richard Freeman, a Harvard economist.

Never again will west European workers live in a world with so little competition. Honest European politicians know this—and so, deep down, do most voters. That is why trade unions are still shedding members. It is why the mainstream left cannot credibly promise to reverse globalisation, preferring instead to blame the crisis on ill-regulated markets. But attacking market follies is hardly a distinctive position (listen to Nicolas Sarkozy, France's supposedly centre-right president). Europe's centre-left is struggling because its 20th century rationale is dying. If it cannot find a less muddled message that explicitly embraces globalisation, this economic crash could deliver it a fatal blow.

Primary schooling

Please, sir, what's history?

Dec 11th 2008
From The Economist print edition

A missed chance to make hard choices about what children should learn

Jupiter Images



IF YOU are in your 40s and British, it is quite possible that your spelling is an embarrassment. You may never have been taught the distinction between "there", "their" and "they're", or perhaps even your times tables. If you moved house during your primary years you may have entirely missed some vital topic—joined-up writing, say. And you may have struggled to learn to read using the "initial teaching alphabet", a concoction of 40 letters that was supposed to provide a stepping stone to literacy but tripped up many children when they had to switch to the standard 26.

Those days of swivel-eyed theorising and untrammelled experimentation—or, as the schools inspectorate put it at the time, "markedly individual decisions about what is to be taught"—ended in 1988 with the introduction of a national curriculum. But though that brought rigour and uniformity, it also created an unwieldy—and unworldly—blueprint for the Renaissance Child. Schools have struggled to fit it all in ever since. Now, 20 years later, the primary curriculum is to be cut down.

In January the government commissioned Sir Jim Rose, a former chief inspector of primary schools, to trim ten existing required subjects to give extra space to computing skills and to accommodate two new compulsory subjects: a foreign language and the now-optional "personal, social, health and economic education" (eating fruit and veg, refraining from hitting one's classmates and much more). On December 8th he published his interim report—and many fear that, as well as losing fat, education will see a lot of meat go too.

Sir Jim proposes merging the subjects into six "learning areas". History and geography will become "human, social and environmental understanding"; reading, writing and foreign languages, "understanding English, communication and languages". Physical education, some bits of science and various odds and ends will merge into "understanding physical health and well-being", and so on. His plan would "reduce prescription", he says, and, far from downgrading important ideas, "embed and intensify [them] to better effect in cross-curricular studies".

Learned societies are livid. "An erosion of specialist knowledge," harrumphs the Royal Historical Society; its geographical counterpart is worried about "losing rigour and the teaching of basics". Even those with

no brief for a particular subject are concerned. Pouring 12 subjects into six "learning areas" is not the same as slimming down; if the curriculum is to become more digestible something must be lost, and just what is being glossed over. "Wouldn't it be better to address the question of subjects directly—which ones, for how long and what to specify?" asks Alan Smithers, of Buckingham University.

One answer is that making hard choices openly would provoke complaints that the curriculum was being dumbed down. Attempts to cut it outright would run counter to powerful forces, as politicians look to schools to solve myriad social ills—from obesity to teenage pregnancy to low turnout in elections—and to pick up the slack left by poor parenting. But Sir Jim's prescription indicates more than the difficulty of his job. He has been asked to solve tricky educational conundrums before and, every time, he has managed to catch the prevailing political wind.

In 2006 he reviewed reading tuition, and plumped for the back-to-basics "synthetic phonics"—to the delight of a government already mustard-keen on the method. In 1999 he answered "no" to the charge that rising exam results were a sign of less exacting exams rather than of better teaching. In 1991 the Tory government of the day was equally thrilled to be told that primary education had become too progressive.

This time, too, Sir Jim has captured the *Zeitgeist*. Synthesis and cross-cutting are once more fashionable in educational circles: since July 2007 England's schools have been overseen not by an education ministry but by the Department for Children, Schools and Families, which is responsible for pretty much everything to do with young people, from health to criminal justice to learning. (The three other bits of the United Kingdom—Scotland, Wales and Northern Ireland—go their own way on education.) Primary schools were turning away from discrete subjects even before he pronounced: a 2007 survey found a third taught mostly "themed" lessons; another 40% were planning to do so soon. Another recent review, this time of what 11-14-year-olds should learn, also plumped for more cross-curricular learning.

Many countries' curriculums consist of high-flown descriptions of the paragonic citizens that education is meant to help produce, couched in impenetrable educationalese. But alongside are usually some hard facts: which textbooks to use and how many hours to devote to each topic, for example. England's lacks such a crib sheet. Schools can choose their own texts, even write their own, and apportion the school day as they please. Exams come in competing varieties from independent exam boards that must, like teachers, read between the lines to figure out what is meant to have been taught. That leaves England particularly exposed to the consequences of curricular woolliness.

Despite seeming vague, though, national curriculums do often encapsulate some aspect of national ideals. France's is explicit about the primacy of *la belle langue*; Sweden's elevates equality above all other virtues; Japan's, love of country. That these match stereotypes so well suggests that they capture a national spirit, or create it, or a bit of both—and raises a worrying question for anyone looking at England's proposed mishmash of a new curriculum.

Shopping in the recession

Hard sell, hard times

Dec 11th 2008
From The Economist print edition

The high street will stay in trouble

HOPES faded this week that Woolworths, a 99-year-old retailer which went into administration in November, could be saved as a going concern. If no buyer is found, over 800 stores and some 25,000 jobs are at risk.

The retailer's woes highlight how tough conditions have become on the high street. That matters for the economy since consumer spending makes up nearly two-thirds of GDP, and of that almost a third consists of retail sales. Consumers were the main beneficiary of the government's fiscal fillip through the temporary reduction of the main rate of value-added tax (VAT), from 17.5% to 15%, from December 1st.

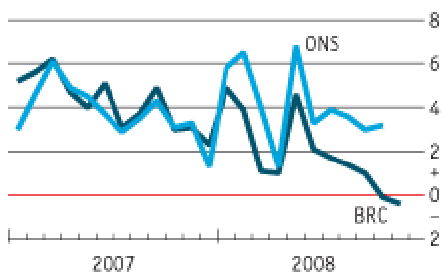
Gauging the initial impact of this cut on retail sales is tricky because many shops are in any case discounting deeply. One early indication comes from Experian, a consumer-research firm, which tracks how many people visit retail centres through its "FootFall" index. This shows that the number of shoppers fell by 2.1% in the first week of December compared with the same period in 2007. Discouraging though that may seem, it was an improvement on conditions in November.

What matters to retailers, however, is how much shoppers actually spend. According to the British Retail Consortium (BRC), a trade body, the value of total sales dropped by 0.4% in the year to November. This followed a fall of 0.1% in the 12 months to October—the first time there had been two consecutive declines since the survey was started in 1995.

The Office for National Statistics (ONS) has not yet published its figures for retail sales in November, but for some time it has been painting a more reassuring picture than the BRC (see chart). It reckons that the value of retail sales rose by 3.2% in the year to October, rather than falling slightly.

Streets apart

Retail sales value, % change on a year earlier



Source: Thomson Datastream

The official series should be the more reliable because it is more comprehensive than the BRC's, which mainly picks up sales by large retailers. The ONS includes internet-only sales and has much wider coverage of small and medium-sized businesses. It says that its figures are higher mainly because these smaller retailers are currently outperforming large ones.

The official numbers are nonetheless widely regarded as suspect. After all, it seems odd that smaller retailers are doing so well when supermarkets are barging into their territory and opening mini-stores. The Bank of England has been sceptical about figures that jar not just with the BRC survey but also with other information, including reports from its own regional agents. It has argued that the discrepancy cannot be attributed to coverage alone.

But even the official series has recorded a slowdown in recent months. Adjusting for inflation, retail sales between August and October were flat compared with the previous three months.

The lure of bargains may yet bring more consumers into the high street in the rest of December and January. But even if such a boost to shopping does occur, it is likely to be followed by a subsequent slackening in demand. Verdict Research, a retail consultancy, is forecasting a 4.2% decline in the value of retail spending, excluding food and internet sales, in 2009. Neil Saunders, an analyst at Verdict, expects there to be more failures on the high street.

Consumers will be helped over the next year by the lower rate of VAT and reduced mortgage-interest payments. They will also benefit from the sharp fall in the price of oil. But unemployment is rising, which

will curb spending power, and those still in work are likely to save more. The outlook for both retail sales and consumer spending remains bleak.

Welfare reform

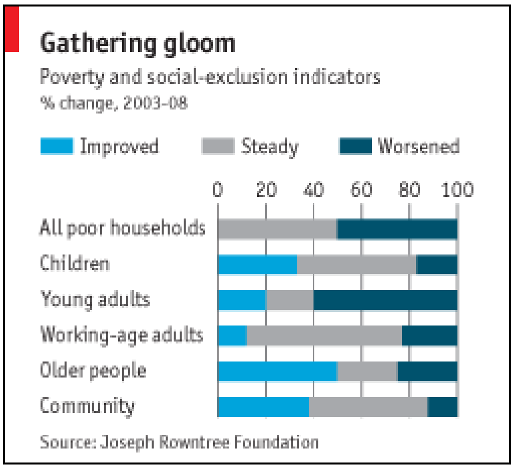
Something for something

Dec 11th 2008
From The Economist print edition

The fight against an ingrained culture of dependency goes on

FEW politicians resemble a stern Victorian less than James Purnell, the modish 38-year-old who thrived at the Department of Culture, Media and Sport (otherwise known as the "Ministry of Fun") before becoming the work and pensions secretary. Yet his plans to reform Britain's welfare system, unveiled on December 10th, saw him portrayed as a redeemer of the feckless by those who deplore the dependency culture that blights some areas, and as a tormentor of the "undeserving poor" by those who fear the human cost of tightening benefits during a recession.

In truth, the plans are the latest attempt by Labour and Conservative governments to prod people from welfare to work. Yet 2.6m still claim incapacity benefit, many without good reason. Research published on December 8th by the Joseph Rowntree Foundation, an independent body, which looked at some 50 indicators of economic and other sorts of well-being, shows that there has been little recent progress in improving the plight of the poor and marginalised (see chart)—which another study too suggests (see article). And the case of Karen Matthews, a welfare mother involved in drugging and kidnapping her own daughter, has revived anxiety about the moral consequences of dependency.



Mr Purnell's white paper—the product of policy reviews by David Freud, a former banker, and Paul Gregg, an academic—is more radical than many that have gone before it. Almost all claimants will have to show that they have made efforts to find or prepare for work. In return, help from the government's Jobcentre staff will become increasingly bespoke—allowing claimants to co-write their own "action plans" to re-enter the job market. Long-term recipients of job-seeker's allowance (JSA) will be transferred to private or voluntary contractors who will be paid only if their charges find and keep jobs. Claimants of incapacity benefit (renamed the employment and support allowance) will be medically reassessed by 2013. Sanctions will be imposed on those failing to meet the conditions of their benefit or found playing the system.

Bold by British standards, then, but nothing like as drastic as the American welfare reform of 1996, in which benefits were explicitly time-limited. The real models to emulate, says Professor Gregg, are the likes of Denmark and the Netherlands, where benefits are high but unemployment is low because claimants are given so much help in finding work.

These nuances are likely to be lost on the enemies of welfare reform, who include many trade unionists and some Labour backbenchers. Ministers are not worried, pointing to scores of Labour MPs who have developed hard-nosed attitudes to welfare after seeing dependency fester in their constituencies. They can also broadly count on the support of the Tories.

Indeed, obstacles to the white paper are more likely to be practical than political. Mr Purnell says that bids for welfare contracts have not dried up because of the recession, but that may change as the economy deteriorates. Some also worry that the shift from a rules-based welfare system to one which allows Jobcentre staff discretion in dealing with claimants will ask too much of these front-line workers.

Despite all this, Gordon Brown, the resurgent prime minister (a poll on December 8th put Labour only four points behind the Tories, who enjoyed vaulting leads just months ago), purportedly sees political wisdom in offsetting his Keynesian economic strategy with right-wing gestures in other areas. In addition to welfare reform, recent weeks have seen tough rhetoric on immigration and a suggestion from Jack Straw, the justice minister, that the Human Rights Act could be "rebalanced" to prevent it being used to benefit criminals.

Welfare reform also provides some intellectual succour to the recently beleaguered right. Britain, after all, is a recession-stricken country lamenting market failure, led by an emboldened centre-left government intervening to rescue banks and boost demand. Renewed focus on a welfare system widely acknowledged to be dysfunctional is a reminder that the state too can fail.

Taxing companies

Ending the exodus

Dec 11th 2008
From The Economist print edition

Will Britain's corporate tax exiles come home?

Illustration by David Simonds



IF YOU are a director of a British company, your duties may now include flying to Dublin to attend board meetings. Fed up with Britain's tax system, a small but growing band of firms have moved their headquarters—most recently WPP, a big advertising company. It took an oft-travelled route, remaining listed on the London Stock Exchange but creating a new parent company that is incorporated in Jersey, in the Channel Islands, and is resident for tax purposes in Ireland.

Inertia no longer guarantees that big British firms will stay put—a majority of boards are thought at least to have explored the idea of changing their residence. So the government finally acted, in its pre-budget report in November. The dividends companies receive from foreign operations will become tax-exempt, replacing a cumbersome system under which Britain taxes foreign profits but gives firms credit for payments they make to fiscal authorities overseas. When America granted a similar, albeit temporary, tax holiday in 2004, several hundred billion dollars were shipped home; the inflow may even have bolstered the dollar exchange rate.

In Britain the change will mainly help British multinational firms that have sold foreign divisions in countries with low or no taxes on such disposals. Unable to repatriate the profits without incurring a hefty tax bill, they have resorted to lending the trapped proceeds to their British parent companies instead. Now, as these fiddly financing arrangements are unwound, some predict that as much as £50 billion-worth of dividends will be repatriated. Sadly for the flagging pound, the net impact is likely to be far smaller, with the dividend inflow offset by repayment of previous inter-company loans.

More important than this technical change, however, may be the broader improvement in what one expert calls the "mood music". Many of Britain's corporate tax exiles, including WPP, were scared off by the Treasury's growing interest in taxing internationally mobile profits—the fruits of intellectual property, for example, or interest income—if it deems a firm is dodging British tax by shifting them around its group. The pre-budget change signals a clear shift to a "territorial" approach, in which the British taxman will limit his enthusiasm to domestic profits and leave genuine overseas earnings alone. "It's a big step forward," says Chris Sanger, head of tax policy at Ernst & Young, an accounting firm, and a former government adviser.

There are still grumbles: some worry about the cap the pre-budget report sets on the interest costs firms can deduct from profits. But the change in approach should help to halt the exodus. Whether it will persuade exiles to return is less clear. After years of confrontation with the Treasury, many bosses will

reserve judgment until the details are set in stone. WPP says it has an “interest in developments”, but that so far it will not consider returning. The London-to-Dublin shuttle has not yet been grounded.

The car industry

Hibernation test

Dec 11th 2008 | BIRMINGHAM
From The Economist print edition

Keeping small fauna alive while the big ones sleep

RACHEL EADE remembers December 5th as Black Friday. Perhaps because of the terrible figures on falling car sales the day before, she was deluged by calls from West Midlands automotive suppliers wondering how they would survive into January. One was a small firm with £250,000-worth of stock frozen on its shelves, another £100,000-worth on its way from Taiwan (ordered by customers but not paid for) and £80,000 owed by Wagon Automotive, a local parts-maker that went into administration on December 8th.

Ms Eade runs Accelerate, a programme overseen by the Birmingham Chamber of Commerce which advises the industry on improving supply-chain networks and diversification. These days she seems more like a stress counsellor, talking firms through options they have probably already thought of—deferring tax payments, or clipping wages and production—in order to hold on until the market improves.

There are 1,500 automotive firms in the West Midlands, employing around 115,000 people and contributing 5% to local GDP. In the past two weeks many have seen a 60% to 80% drop in new business. Carmakers nearby, such as Honda in Swindon and Toyota near Derby, will curtail production for up to two months. The impact on suppliers all along the chain is a drop in orders and doubt about when they will resume.

"Some of those suppliers may not be around in two months, unless they get help," says Ms Eade. The concern is that carmakers will look beyond Britain for replacement suppliers when they eventually resume or increase production.

Hence the pressure on the government and regional development agencies (RDAs) to help the sector through this enforced hibernation, on the assumption that orders will bounce back. Car sales in Britain dropped by 37% in November compared with a year earlier. Many underestimate the importance of this to the economy, believing that Britain's automotive industry finally died, after a long decline, with the demise of Rover in 2005. Not so.

Britain no longer has a national champion: iconic brands such as Jaguar Land Rover, MG and Mini are owned, respectively, by Tata of India, Shanghai Automotive Industry Corporation and Germany's BMW. But its automotive industry is globally important, and not just for the 1.8m vehicles it turned out last year. Its significance lies in the manufacture of components, some with world-beating technology; in the concentration of expertise at universities such as Coventry and Warwick; in design and consultancy firms; and in the research and development (R&D) departments of Jaguar Land Rover, Ford and others. Manufacturing jobs are more valuable than service-sector jobs in the region, bringing 30% more gross value added per employee, says Stephen Gray at Advantage West Midlands, the area's RDA. There is good reason to keep the auto industry alive through this downturn, he believes.

So does Lord Bhattacharyya, founder of WMG, a manufacturing think-tank at Warwick University, and a veteran government adviser. "In the 1970s and 1980s I was happy for some of those car companies to go down," he says. "But this is different." Many of these firms are highly efficient; the question is which businesses will be sustainable after the recession. For those that could be, "I believe in an industrial strategy, not total abdication," he says.

There is much talk in the car industry about how to improve small companies' access to credit—by offering a 95% government guarantee on bank loans, for example, or by making direct government lending available, on commercial terms. State-sponsored help should come with a quid pro quo though, says Jerry Blackett, chief executive of the Birmingham Chamber: part of the support to each firm should go on improving workforce skills and R&D.

A few blocks away, shoppers scour the Bullring for discounts of up to 50% on clothes and other goods. They seem unaware, as they pass beneath the Christmas lights, that the future of their most important

industry is in the balance.

Damian Green's arrest

The odd couple

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From The Economist print edition

The speaker and the mayor are in trouble again

MICHAEL MARTIN, the Labour MP of working-class Glaswegian stock who is speaker of the House of Commons, and Boris Johnson, the Old Etonian, Conservative mayor of London, have little in common beyond a habit of getting into scrapes, only to be defended all the way by tribal members of their respective parties. Both are in trouble over last month's extraordinary arrest of Damian Green, a Tory MP. And both may find the backing of colleagues less reliable than usual.

Mr Green, the Tories' immigration spokesman, was arrested in connection with embarrassing Home Office leaks. His home, constituency surgery and, most controversially, parliamentary office were raided. Since then, indignation has raged pretty well unquenched at Westminster.

Quite apart from the question of whether the Home Office overreacted by calling in the police, and whether the police overreacted in arresting Mr Green rather than inviting him in for questioning, is the matter of parliamentary privilege. MPs regard their place of work as near-sacrosanct. Many accuse the Commons authorities of dereliction of duty in allowing the police to raid a member's office, and without a warrant to boot. On December 3rd Mr Martin attempted to shuffle off responsibility for the fiasco to his officials.

His classic exercise in buck-passing looked even worse this week when the speedy, independent review by seven senior MPs he had promised ran into the sand. The bill brought forward by the government on December 8th offered an inquiry of limited scope led by a Labour-dominated committee that would sit on its hands until the police had completed their work. The government narrowly won the vote, only for the Tories and Liberal Democrats to threaten to boycott the result.

Since then two high-powered Commons committees have decided to proceed with wider-ranging investigations of their own. The damage done to Mr Martin, however, remains huge. A few MPs have called publicly for him to resign, and many more say the same in private. Already unpopular among Tories for his perceived bias toward the government, and widely criticised for his lavish taxpayer-funded expenses (though he has been found guilty of no wrongdoing), Mr Martin cannot afford to lose the support of his own party. Hints that he will stand down after the next election may be enough to stave off a move against him before then.

Extramarital affairs and indiscreet remarks did not stop the chaotic Mr Johnson winning Britain's most important directly elected office, but his role in Mr Green's arrest is of a higher order of controversy. He has admitted to contacting Mr Green, a suspect in an ongoing police investigation, after receiving a private briefing from Sir Paul Stephenson, the acting head of the Metropolitan Police. He also complained strongly to Sir Paul when informed of the impending arrest, and said publicly that he had a "hunch" charges would not be brought against Mr Green.

A prime case of political interference, say some, including the leader of the Labour group at City Hall, who has filed a complaint to the Metropolitan Police Authority's chief executive. It may result in a formal inquiry by the Standards Board for England, which has the power to suspend or even remove him from office.

With an electoral mandate won only in May, and backed by a Tory tribe who seem to have an inexhaustible affection for him, Mr Johnson can mount a fight (though the departure this week in grimy circumstances of another key adviser, David Ross of Carphone Warehouse, will test their patience). Mr Martin should be so lucky.

Assisted suicide

In the public interest

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From The Economist print edition

A little guidance on when the law will be strictly applied

LESS than two months after the High Court ruled that the director of public prosecutions was not obliged to give guidance on whether those who help loved ones commit suicide might be prosecuted, the new DPP, Keir Starmer, has done pretty much just that. He explained on December 9th why he had decided not to prosecute the parents of Daniel James, a 23-year-old tetraplegic, who travelled with their help to Switzerland in September to end his life.

Daniel, a former rugby player, was paralysed from the chest down when his spine was dislocated in a scrum in March 2007. Finding what he called his "second-class existence" intolerable, he tried several times to commit suicide on his own before imploring his parents for help. Though they pleaded with him for months not to do it, he refused to change his mind. So they agreed to organise a trip to Dignitas, a Swiss organisation set up in 1988 to help those suffering from terminal illnesses or unbearable pain to die "with dignity".

Aiding someone to take his own life in what is known as assisted suicide is lawful in a handful of countries—Belgium, Luxembourg, the Netherlands, Switzerland and the American states of Oregon and Washington—under certain conditions. But in England and Wales, although suicide itself is no longer an offence, it is a crime, punishable by up to 14 years in jail, to "aid, abet, counsel or procure" someone else's suicide. In surveys, more than 80% of Britons say assisted suicide should be legalised. But successive attempts by individual MPs to change the law have failed.

What is written in the statute book is not necessarily an indication of how the law will be applied, however. Over the past six years, at least 90 Britons have travelled abroad to get help in taking their own lives. In not one case have those who helped them been prosecuted, though some have been questioned by the police.

Debbie Purdy is one who should take heart. Bound to a wheelchair by multiple sclerosis, it was she who asked the High Court for a judicial review when the previous DPP, Sir Ken Macdonald, refused to give advice as to whether her husband would be prosecuted if he helped her commit suicide. (She is determined to do this, if her life becomes unbearable.) By the time the court said the DPP was not obliged to do so, Sir Ken had stepped down.

But public interest in the rights and wrongs of assisted suicide and the different "mercy killing" is intense. On December 8th Kay Gilderdale, a policeman's ex-wife, was arrested on suspicion of killing her 31-year-old daughter, bedridden and virtually immobilised for 16 years with a virulent form of chronic-fatigue syndrome (ME). Several other recent stories, too, have focused attention on whether and how a person may be helped to end his life.

Against this background, Sir Ken's successor as DPP took the unprecedented step of publishing his reasons for not prosecuting Mr and Mrs James. Though his comments are limited to that case and not intended to provide general guidance, they nevertheless shed some light on a hugely complex and sensitive issue. Although there was sufficient evidence to bring a prosecution, Mr Starmer explained, he did not deem it to be in the public interest.

Under the code for prosecutors, "a prosecution will usually take place unless there are public-interest factors tending against prosecution which clearly outweigh those in favour." Among the factors a DPP had to consider, Mr Starmer said, was the probability of a custodial sentence; how likely it was that the offence would be repeated; whether the potential defendants were much older and in a position of trust with regard to the victim; and whether they stood to gain any advantage, financial or otherwise, by his death. In each instance, he believed the factors against prosecution "clearly outweighed" those in favour.

Bagehot

Rumble in the jungle

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What the creeping return of the big beasts says about British politics

Illustration by Steve O'Brien



THE doodlebugs were much less nice than their nickname sounds. They were devastating flying bombs that began to hit London in June 1944. Later that year, the Nazis deployed even more awful supersonic rockets—and a few Londoners referred to the "good old doodlebugs". Which goes to show that memory is unreliable, nostalgia irrational and judgments often relative.

All that is true of politicians and their reputations too. There is a gaggle of once-prominent MPs who are known, in political jargon, as "big beasts". Some deserve the animal accolade, others do not. There are several ministers of the 1990s who, while in office, were dismissed as spin-obsessed bunglers, but whom instant mythology—and comparison with their successors—has transformed into gurus. Now, almost as a herd, these resting big beasts, the formidable and the chimerical, seem to be moving back to the front-line of politics. It is a telling migration.

The most exotic specimen to be unleashed is, of course, Lord Mandelson, resurrected as business secretary in October. Gordon Brown also brought Margaret Beckett and Nick Brown, two other veteran ministers, back into government. Less conspicuously, he has been taking advice from Alastair Campbell, Tony Blair's hatchet-man. Rumours that Alan Milburn, a former health secretary, is set for a role in policy formulation may be unfounded. But David Blunkett—who, like Lord Mandelson, twice resigned from the cabinet—may re-surface. Peter Hain—forced out by a funding scandal in January, but now partially rehabilitated—retains Mr Brown's esteem. On the Tory side, there is persistent talk of using Ken Clarke, a former chancellor, home secretary, health secretary (and so on) for more than the odd policy commission. Mr Cameron has already offered him a job once, and the two are on good terms. Michael Howard, Mr Cameron's predecessor as leader, is increasingly conspicuous on television.

The obvious risk of disinterring the mammoths, especially for Mr Brown but for Mr Cameron too, is that it makes their teams look old, stale and busted. The trick is to exploit the contradictions of political memory: all governments, even the last Tory administration and the current Labour one, have some successes and some heroes, or at least assets, remembered fondly where their colleagues are reviled. Mr Clarke is one such: he is untainted by the toxic associations of sleaze and incompetence that stick to many Tories of the same vintage. Lord Mandelson's connotations of scandal and over-cunning faded during his long exile in Brussels; but he still carries an electorally useful whiff of steel and success. Like Michael Heseltine, a Thatcher-era dissident whom John Major reinstated, ultimately as deputy prime minister, his return has a

helpful therapeutic effect within his party.

And against the risk of over-familiarity, there is the opposite risk of anonymity. Labour's long stint in government has involved a painful attrition of its best-known talent; many current cabinet ministers have minuscule name recognition and no independent political identity—so public discontent is directed overwhelmingly at Mr Brown. That is one reason why bringing back Mr Hain, whose face is relatively recognisable, might appeal. The repeated upheavals during the Tory party's wilderness years have bequeathed a front bench that is just as unknown.

This is especially undesirable at a time when anxiety over jobs and mortgages has made experience and trustworthiness vital political commodities. It is said of some senior Conservatives that they too often look as if they've had a good lunch; Mr Clarke appears to have had a lifetime of good lunches, but not at Le Gavroche. His rumpled blokeishness could help to persuade voters that the Tories are more than a bunch of unfeeling toffs. Lord Mandelson, meanwhile, has brought a fresh subtleness to the government's recession management, plus a sense of hyperactive urgency and an icy menace towards recalcitrant banks.

Red and blue in tooth and claw

The big beasts' most important attribute, however, may be their beastliness: their sharp-elbowed, thick-skinned, street-fighting toughness. Lord Mandelson recently demonstrated his talent for suave political knifework in his bid to deflect criticism over the arrest of Damian Green, the shadow immigration spokesman, back at the Tories. Mr Blunkett was once, and might again be, one of Labour's fiercest campaigners—a prowling attack dog in the incipient bid to cast Mr Cameron as an empty bespoke suit. David Davis, who chewed up a run of home secretaries before bizarrely leaving the shadow cabinet in June, is another accomplished bare-knuckle politician. Many top Tories distrust and dislike him—but they miss him.

There are two reasons why this beastly pugnacity is newly valuable. One is the forthcoming general election. British campaigns are not yet as elongated as American ones; but politics is nevertheless heading into a sort of end game, with ideological battle lines drawn and a vote due within 18 months—and perhaps coming much sooner. As one former cabinet minister puts it, Mr Brown needs henchmen who won't panic if Labour is eight points behind in the second week of a campaign. He needs allies who know how to win, but also how it feels to lose: political siblings who, like him, spent much of their lives making Labour electable, and cannot, as their younger colleagues can, look forward to another bout in government after a spell in opposition.

The second reason is that politics has turned nasty. Mr Brown and Mr Cameron palpably detest each other; each justifiably accuses the other of using low and personal tactics. The bile has percolated through their parties: even by Westminster's pantomime standards, exchanges in the House of Commons have become unusually vitriolic, and the mutual accusations (of economic vandalism and rank inanity) severe. Politically as well as economically, the circumstances require a mix of steadfastness, boldness and violence. It is time to set loose the big beasts.

International justice

A middle way for justice in Sudan

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Instead of being carted off to The Hague, could Sudan's president be tried at home?

EPA



EVER since July, when the chief prosecutor of the International Criminal Court (ICC) in The Hague sought the indictment of the Sudanese president, Omar al-Bashir, on charges of genocide and war crimes, foreign diplomats, regional leaders and many Sudanese, including much of the political opposition, have been scrambling for a way out of a seemingly impossible dilemma. Most support the idea of prosecuting Mr Bashir and others for the carnage they are alleged to have inflicted on Sudan's western province of Darfur. But they also dread what could happen in Sudan as a result of the indictment of a serving president by an international court.

A vindictive Mr Bashir could stymie the national elections planned for next year, end a very fragile peace process in Darfur, expel UN troops from the region or retard the already slow implementation of a peace agreement between his government and the former rebels in south Sudan. He could do one of these things or all of them together. Surely there must be some better mechanism, many argue, for holding those responsible for the atrocities in Darfur to account without reversing some of the hard-fought and precarious political and humanitarian gains of the past few years?

Now Sudan's most prominent opposition politician, Sadiq al-Mahdi, thinks he has an answer: what he calls a "third way" between hauling Mr Bashir to The Hague and doing nothing about crimes in Darfur. He suggests setting up an independent "hybrid" court for Darfur, which would have both Sudanese judges and international ones and sit in Sudan.

It is an intriguing proposal. The idea of mixing national and international procedure has been accepted in Sierra Leone and Cambodia. And Mr Mahdi has huge weight, as head of the Umma party, Sudan's main opposition. He was the last prime minister to be democratically elected, back in 1986. He is also the spiritual leader of the powerful Ansar sect. Like many others, he says an ICC indictment of Mr Bashir would lead to "chaos" in Sudan; he hopes that his third way would "reconcile stability with accountability".

Both legally and politically, the idea has its attractions. Such a hybrid court would dispense justice close to the scene of the crime, another ambition of the ICC. And if the special court were deemed to be a genuine, impartial attempt to obtain justice, rather than a stalling tactic, the ICC could, under Article 16 of its statutes, defer its indictment of Mr Bashir.

That would get everyone off the hook, and the move would probably be welcomed by the UN Security Council. But would Mr Bashir and his government bite? Maybe. In public, he and his supporters have been furiously denouncing the ICC and all its works as a Western imperialist plot. In private, however, they have begun to accept that they will have to engage with the court. The government has hired a firm of British lawyers, Eversheds, to scrutinise the charges and help them with the case. A hybrid court might be a way out for the government too.

Several such tribunals have already been set up by the UN and the country most intimately concerned. The first, the Special Court for Sierra Leone, was set up in the capital, Freetown, in 2002 to try the leading figures in that country's savage 11-year civil war; it is now in the process of winding up. Three rebel leaders have been convicted of war crimes and sentenced to terms of up to 50 years in jail. Three others from a different rebel group are likely to get equally hefty jail terms when they are sentenced in January. Two senior members of a pro-government militia, also convicted of war crimes, got somewhat reduced terms in recognition of their help in ousting the brutal rebels from power.

From Liberia to Lebanon

At the same time, the trial of Charles Taylor, the Liberian ex-president accused of planning and financing the rebel atrocities in Sierra Leone, continues in premises lent to the Special Court by the ICC in The Hague. The prosecution has already presented more than 80 witnesses and is due to conclude its case next month.

A hybrid tribunal has likewise been set up by the UN and the Lebanese government to try the alleged assassins of Rafik Hariri, a former Lebanese prime minister. It is due to start operations in The Hague in March. Hariri was killed along with 22 others by a huge truck-bomb in Beirut, the Lebanese capital, in February 2005. The new court's chief prosecutor, Daniel Bellemare, a Canadian, has said that a "network of individuals" were involved. It is widely believed in Lebanon and the wider Middle East that Syria's hand was behind the assassination. At least 17 other, possibly related, political murders are being investigated by the court.

Far away in Cambodia's capital, Phnom Penh, a joint UN-Cambodian tribunal is due to start its first genocide trial early in the new year. The surviving leaders of the Khmers Rouges, a bunch of extreme agrarian communists, are held responsible for the deaths of about 2m men, women and children, a quarter of the population.

In Senegal, not a hybrid court but nevertheless a "special" one has been set up to try one man—Hissène Habré, a former dictator of Chad—"on behalf of Africa". In 2006 the African Union asked Senegal, where Mr Habré has been living in exile since 1990, to take on the case after coming under pressure from human-rights groups and Belgium, which had threatened to try him for crimes against humanity under its "universal jurisdiction" law. Senegal's constitution has now been amended, the necessary laws passed, and special judges appointed; the court can start its work as soon as a date is set.

AP

In Uganda, there is continuing talk (though not much action) about setting up a special court there to try the three surviving leaders of the Lord's Resistance Army (LRA) indicted by the ICC. Led by Joseph Kony, a half-crazed mystic, the rebel group terrorised northern Uganda for more than two decades with rape, murder, the torching of villages and the abduction of children, before decamping to Congo's eastern province of Ituri, where it continues to do the same. Two of the indicted leaders have been killed since the ICC issued arrest warrants, its first, in 2005.

It was Uganda that asked the ICC to intervene. Indeed, it was almost certainly the threat of being hauled off to The Hague, where the court is based, that induced Mr Kony and his henchmen to come to the negotiating table in July 2006. But as the talks dragged on and Mr Kony continued to refuse to sign any final deal unless the ICC charges were withdrawn, Uganda's president, Yoweri Museveni, seemed to undergo a change of heart. He offered to set up a special tribunal in Uganda which would try the rebel leaders, with an implicit understanding that they might get off lightly or maybe escape prison altogether.

Mind those hurdles



Kony at large, unrepentant

Under the ICC's strict principle of "complementarity", the court will take on an atrocities case only if the country itself is "unable or unwilling" to do so. The court may agree to hand over the prosecution of the case in midstream, but only if its judges are convinced that the proposed special domestic (or hybrid) court will be as strict and fair in its application of justice—including its sanctions—as the ICC itself. That will be a high hurdle for countries like Sudan and Uganda to overcome. So far, the court has shown no readiness to give up any cases, even when it has come under international pressure to do so.

Six months ago, the ICC faced a lot of flak—and some ridicule—when its first trial was suspended and the defendant, a Congolese warlord, ordered to be released after it was found that potentially exculpatory evidence, relied on by the prosecution, had been shown to neither the defence nor the trial judges. On an appeal by the prosecution, the court agreed to keep the defendant, Thomas Lubanga, in custody. But many saw the affair as a devastating blow both to the reputation of the court and to international justice in general.

The matter has now been cleared up, and Mr Lubanga's trial is set to start in The Hague on January 26th. If anything, the court's credentials have been enhanced, as a result of its determination to ensure fairness to the defence. Two other Congolese warlords, Mathieu Ngudjolo Chui and Germain Katanga, are awaiting trial in The Hague, while a fourth, Bosco Ntaganda, has been indicted, but is still at large. He is second-in-command to Laurent Nkunda, the rebel leader whose troops have terrorised Congo's eastern provinces of North and South Kivu. The ICC's chief prosecutor, Luis Moreno-Ocampo, will soon announce the start of another case in Congo.

The neighbouring Central African Republic is the fourth country where the ICC has opened formal investigations—in this case, into the atrocities perpetrated by both rebel and government forces between October 2002 and March 2003 in the lead-up to the coup against the then president, Ange-Felix Patassé, by the rebel leader, now president, François Bozizé. Jean-Pierre Bemba, a former vice-president of Congo and warlord whom Mr Patassé called to his assistance, has already been arrested and transferred to The Hague. Further charges are expected to follow—of Mr Patassé and possibly Mr Bozizé, too. That is why the latter has followed Mr Bashir's suit in asking the Security Council to suspend the proceedings.

Meanwhile, as governments consider what to do about Zimbabwe's president, Robert Mugabe, a possible prosecution by the ICC is being mooted. Some say this would be impossible as the court normally acts only in the case of atrocities perpetrated either in a member state or by a member's nationals, and Zimbabwe has not signed up to the court. But Sudan is not a party either: in such cases, the UN Security Council can ask the court to investigate.

On the other hand, the ICC has jurisdiction only over the most serious crimes—genocide, war crimes, mass rape, crimes against humanity and the like—and only if they occurred after it began work in July 2002. Most of the atrocities carried out on Mr Mugabe's watch happened before that. The question is whether Mr Mugabe's failure to tackle the present humanitarian crisis could be construed as a crime against humanity. If it were, he too could find himself hauled off to The Hague. Like most other international courts, the ICC rules out immunity for anyone—even serving heads of state.

Cluster weapons

Collateral damage

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America won't sign a treaty banning cluster bombs. But can it use them now?

Reuters


Gathering a lethal harvest

IMAGINE a new war involving NATO. At the combined air-operations centre, the Americans want to destroy a concentration of enemy forces, or a column of vehicles, with cluster bombs, which rain bomblets over a wide area. The tactic has often been used in American-led operations, including those in Afghanistan and Iraq.

This time, though, several European allies have signed a treaty banning the use of cluster bombs; they have vowed not to "assist" others in using cluster munitions and pledged to make their "best efforts to discourage" their use. What would happen in the heat of battle? Would allied commanders bicker over the legality of the weapons; would Europeans turn a blind eye to their use by America (through a separate American chain of command), accepting the political opprobrium that would follow; or would America yield to its allies' qualms and choose a different weapon, perhaps a big bomb?

Nobody really knows. The treaty was signed in Oslo on December 4th by 94 countries—among them American allies like Britain, Germany, France, Japan and even, unexpectedly, Afghanistan. It includes an exemption for signatories to conduct operations alongside non-signatories, such as America, that "might engage in activities prohibited" by the treaty. NATO says the clause provides the necessary flexibility for all sides to operate together.

Legally this may be so, but the issue is political: the price of using cluster munitions has been raised. "We are pretty confident that it's going to be extremely difficult for the United States to use cluster munitions in future," says Thomas Nash, co- ordinator of the Cluster Munition Coalition, an umbrella body of groups wanting a ban. At the signing ceremony in Oslo, Britain's foreign secretary, David Miliband, said the treaty set a new global norm. One Western diplomat says the weapons could now be used only "in extremis".

The Convention on Cluster Munitions, negotiated in Dublin in May, is a natural successor to the 1997 convention to ban landmines. Opponents of cluster munitions say they are an indiscriminate weapon when they go off; and that unexploded bomblets turn the target area into a virtual minefield. The unstable explosives are often brightly coloured; this is supposed to warn adults, but attracts children, who may be killed or maimed.

Mr Nash says there is "a nice little race" to be among the first 30 countries whose ratification would bring the treaty into force (four did so immediately). Britain is among those that have started destroying stockpiles; it has asked America to remove cluster munitions stored in Britain within the treaty's eight-year deadline.

As with the landmine ban, America stands with Russia and China in opposing the move to outlaw cluster munitions. Other holdouts include countries nervous of Russia, like Poland and Finland, and states that fear future wars, like Israel, Egypt, Syria and the Koreas. Russia, which used cluster munitions in its war with Georgia (which also used them), opposes "unjustified restrictions" on the weapons.

For American officials, the treaty is self-righteous nonsense. They say its impact could be "perverse" if it makes countries use bigger bombs and more of them. They insist that the impact on operations with allies could be "quite bad" and that solving this problem will require political will.

Still, America has had to give ground. It voices sympathy with the humanitarian motives of the treaty.

Last July the Pentagon set out a new policy to get rid of cluster weapons by 2018 if they have a failure rate greater than 1%. America wants a similar protocol to be adopted by all countries at the United Nations' talks on a Convention on Certain Conventional Weapons.

Lobby groups hope Barack Obama will back the treaty. As a senator in 2006, he backed a failed move to stop the weapons being used near civilians. His team says he will "carefully review" the treaty. Yet Mr Obama has asked Robert Gates to stay on as defence secretary. One Pentagon insider says Mr Obama will find it hard to change American policy once he realises that cluster munitions make up more than half the country's bomb stockpile.

Children's welfare

The best places to breed

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A nice simple way of seeing how youngsters are doing

WHICH countries are healthiest and happiest for children (and hence for their parents too)? Very broadly, economically successful nations are better for the young than poor ones, but the correlation is imprecise. Plenty of countries have enough revenue from oil or minerals to make their balance of payments look good—and youngsters who do not get enough food or schooling.

So researchers from Save the Children UK, the British arm of an international charity, set out to find a simple way of measuring child welfare. They took three basic indicators: the mortality rate among under-fives; the percentage of under-fives who are moderately or badly underweight; and the proportion of primary-school-age children who are not enrolled in school. They also compared three periods: the years 1990-94; 1995-99; and 2000-2006.

Young and lucky, or not

Child-poverty index, 2000-2006

Rank		Index	Rank		Index
1	Japan	0.41	62	Saudi Arabia	9.66
2	Spain	0.57	88	Malawi	21.21
3	Canada	0.73	119	Pakistan	33.59
8	Britain	0.99	135	Somalia	53.13
23	United States	3.88	136	Sierra Leone	55.94
31	Russia	5.05	137	Niger	58.47

Source: Save the Children

Globally the picture is quite encouraging, with some progress in almost every region of the world. Latin America and the Caribbean were the best performing area, with a 57% leap in child welfare between the first period and the third; poorish countries like Peru and El Salvador reported bigger jumps than middle-income Mexico. China was the driver of a 45% improvement in East Asia. India's poorish record with respect to malnutrition (at a time of impressive economic growth) dragged down the improvement (32%) registered by South Asia as a whole.

It will hardly be a surprise that the worst-performing countries are mostly in Africa, but within that continent there is much variation: from a 56% improvement in Malawi to a 52% decline in war-ravaged Congo. Some countries, like Eritrea, have managed to reduce child mortality without making much headway against malnutrition; Madagascar saw a big fall in mortality but levels of poor nutrition rose. In other words, children have a better chance of surviving but they still do not get enough to eat. Southern Africa in general has a pretty dire record, largely because of AIDS. South Africa, Lesotho, Botswana and Zimbabwe also saw modest declines in child welfare; presumably things have got worse in Zimbabwe since 2006.

The simplicity of Save the Children's approach may seem naive to some but others will welcome the ability to see at a glance how youngsters are faring. Britain is spared the embarrassment it suffered last year when a survey of 21 rich countries by Unicef put it bottom of the class; that study included older children and posed elusive questions like "whether children feel loved, cherished and supported, within the family and the community…" That is hard to measure; deaths, diet and schools are fairly easy.

An elephant, not a tiger

Dec 11th 2008
From The Economist print edition

For all its chaos, bureaucracy and occasional violence, India has had a remarkably successful past few years. James Astill (interviewed here) asks how it will cope with an economic downturn

Reuters



EARLY next year, perhaps in April, India's coalition government will face the judgment of 700m voters. Being mostly poor, they will not be happy. Recent months, moreover, have brought particular hardships: high inflation, a patchy monsoon, a slowing economy and vanishing jobs. In a worrying time, the terrorist attacks in Mumbai on November 26th-29th came as a particularly harsh blow. They gave the world images of India that jarred with the shining message of its recent progress. For three days India's most cosmopolitan city and aspirant international financial centre echoed with gunfire. Amid the slaughter wrought by just ten well-organised assassins many individual Indians acted heroically. Yet the institutional response, as so often, was poor. Properly trained troops took over nine hours to arrive at the scene. Most of the 170-plus victims died during that time.

The Congress party, which leads India's ruling coalition and runs Maharashtra, the state of which Mumbai is the capital, is likely to suffer for this. To make amends, Congress sacked the interior minister, and Maharashtra's chief minister. The government, led by Manmohan Singh (pictured above), has also raised a cry—though not, thankfully, its fists—against Pakistan, whence the terrorists probably came.

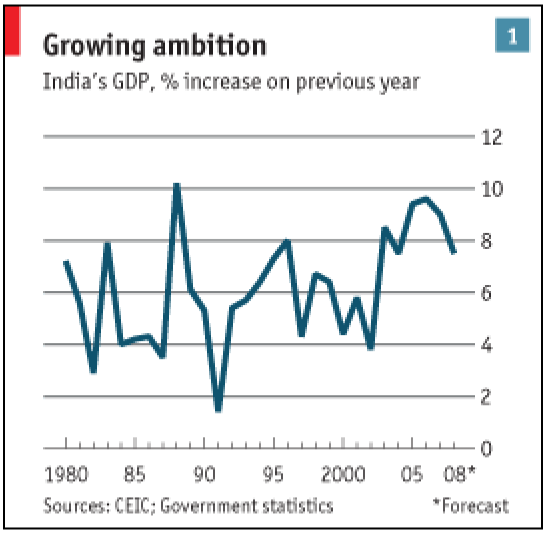
Yet for most poor Indians terrorism remains a small part of their troubles. To deal with those, Sonia Gandhi, Congress's leader, will reissue a lot of unkept promises when the election campaign begins: to bring everyone electricity, piped water, schools and jobs. She will say little about what this government has actually done: there hasn't been much.

At the same time Mrs Gandhi and her prime minister, Mr Singh, have presided over the biggest investment-led boom in India's history. In the past five years the economy has grown at an average annual rate of 8.8% (see chart 1). Services, which contribute more than half of GDP, have grown fastest, above all India's computer-services companies. Infosys, TCS and Wipro are now world-famous names. But Indian manufacturing has also done well. Its impressive run culminated in January with the launch by Tata Motors of an ultra-cheap family car, the Nano.

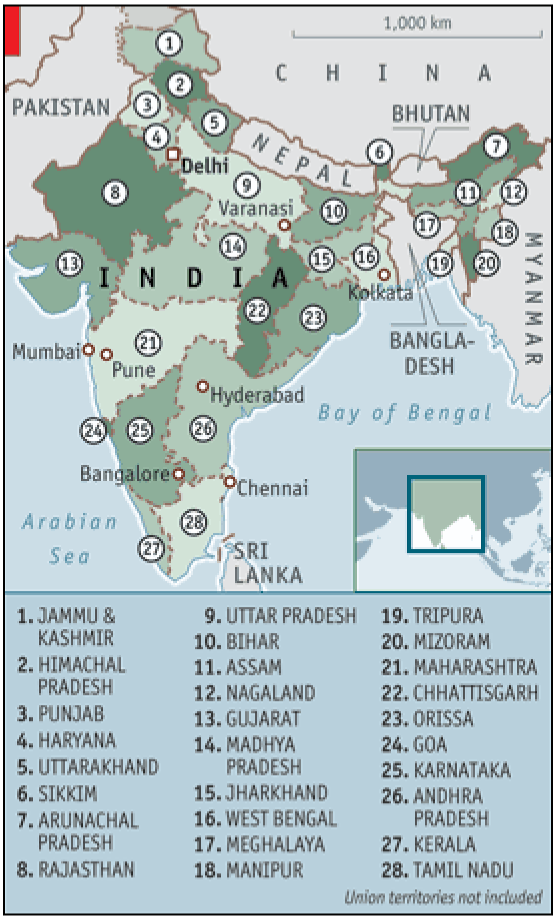
A world of fewer opportunities

India is now facing harder times. Its stockmarket has been sliding all year. As global credit has dried up, even Tata Motors,

one of India's best companies, has been struggling to lay its hand on capital. India's economy is slowing rapidly and confidence is fragile. Previously soaring foreign investment in the country is expected to dip. Nobody yet knows how serious the slowdown will be, but in theory a recession in the rich world should hurt India less than other emerging markets: exports amount to only about 22% of India's GDP, against 37% of China's.



Diplomatically, India has also started to matter more. The US-India nuclear co-operation agreement, which was approved by America's Congress in October, was the clearest sign of this: to let India in from the nuclear cold, the developed world has made an exception to the counter-proliferation regime. Mr Singh can take much credit for this. A courteous and scholarly former finance minister who launched reforms in 1991 that unshackled India's mixed economy, he has been an effective envoy for India.



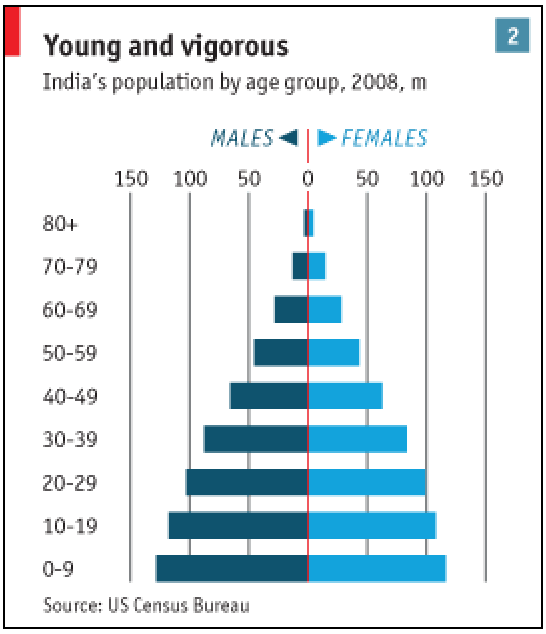
At home, often stymied by his coalition's leftist allies, he has done much less well. But, among his few successes, he can claim that India, the world's fourth-biggest emitter of greenhouse gases, has started to get serious about climate change. It refuses to consider cutting its carbon emissions, arguing that they are still very low per Indian. But guided by Mr Singh, India's bureaucracy has at least accepted that, being hot, poor and agrarian, India will be badly hit by climate change.

That makes India's main priority, reducing poverty through rapid economic growth, even more urgent. According to the World Bank, in 2005 some 456m Indians, or 42% of the population, lived below the poverty line. In 1981, by the same measure, the numbers were 420m and 60% respectively. The government's own estimates are lower. But everyone agrees that poverty in India is falling much too slowly.

Pick another wretched statistic: there are plenty of them. India has 60m chronically malnourished children, 40% of the world's total. In 2006 some 2.1m children died in India, more than five times the number in China.

To make a serious dent in poverty, India needs to keep up economic growth of around 8% a year. In the medium term that should not be too difficult. More impressive even than the success of India's best companies is the zest for business shown by millions of Indians in dusty bazaars and slum-shack factories. They are truly entrepreneurs. It is no coincidence, as is often noted, that Indians have prospered everywhere outside India.

But India's task remains daunting. Some 65% of Indians live on agriculture, which accounts for less than 18% of GDP. Shifting them to more productive livelihoods—and so reducing poverty—would be hard even if the number of people of working age was not growing so fast. Roughly 14m Indians are now being added to the labour market each year, and that number is rising. Half of India's people are under 25 and 40% under 18 (see chart 2). They cannot all work for Infosys. Indeed, because of India's historic underinvestment in education, many are not obviously skilled at anything. By one estimate, which may be optimistic, only 20% of job-seekers have had any sort of vocational training. If India cannot find employment for this lot, poverty will not be reduced and India may face serious instability.



Its democracy will be no defence. India is already worryingly violent. A Maoist insurgency in eastern India, which Mr Singh has called "the greatest internal security challenge we have ever faced", is an obvious ill omen. Where it is spreading, in poor, agrarian and broken places, the "invisible threads" that bind India, in the phrase of Nehru, its first prime minister, are almost non-existent.

In recent years India has been creating more jobs than the gloomier scenarios suggested. Between 2000 and 2005 its rate of employment growth doubled, to 2.6% a year. But that is still insufficient, and there are also fears about the quality of jobs being created. To escape throttling labour laws, Indian entrepreneurs tend to keep their operations small: 87% of manufacturing jobs are with companies that employ fewer than ten people. These tend to be both less productive than jobs in bigger companies and less protected by the law.

If India is to sustain a growth rate of 8% or higher, as it aims to do, it will need to manage four potential constraints. The most pressing, its rotten infrastructure and the dreadful quality of its education, are, alas, not new. But the government's response has long been inadequate, and with India's burst of high growth these two problems have become more urgent than ever. India's current rulers, the mahouts to an elephantine state, seem at least to understand this. But their efforts to end these troubles remain unconvincing. India's other big constraints, its cumbersome labour and land laws, should be easier to fix. But there is depressingly little sign that this will happen soon.

India is getting stronger, but its problems are also growing. In the end, the pattern of its progress suggests, it will succeed. But it may be a long and painful grind.

The democracy tax is rising

Dec 11th 2008
From The Economist print edition

Indian politics is becoming ever more labyrinthine

TO GET the measure of India's political class, picture this. On July 21st Manmohan Singh convened an historic gathering at the Sansad Bhavan, India's rotund parliament building. The government had been abandoned by its Communist allies, putting Mr Singh's great achievement, a civil nuclear co-operation deal with America, in jeopardy. The government had been reduced to a minority. If it folded, the deal would die with it, so Mr Singh asked parliament for its support.

Over two days a few brave politicians debated the nuclear deal. The rest of the house jabbered and yowled, in many tongues, for the television cameras. A convicted murderer stretched out on a backbench; he and four other jailbird members (all pro-government) had been freed for the vote. Shortly before it took place, three members of the main opposition Bharatiya Janata Party (BJP) produced bricks of rupee notes: part of a bribe, they said, given by government supporters for their votes. By hook or by crook the government won, by 275 votes to 256.

In a coup-ridden region, Indians are justifiably proud of their democracy. It has been interrupted only once: in 1975, by Indira Gandhi's 21-month state of emergency. At their next opportunity India's voters threw out Mrs Gandhi and her Congress party, for the first time in its history. Thereby they issued a message about the importance of timely elections that India's leaders have never forgotten—and if they did forget, India's Election Commission would issue a reminder. It is strong and independent: it can—and does—remove any official it suspects of undue bias. This ensures that, every five years, over a period of a few weeks, India holds a reasonably orderly and fair election. Its 29 states do the same, according to their own electoral calendars. For a vast and somewhat unruly nation, where the state is often partial and corrupt, these are tremendous accomplishments.

If only the election commissioners could decide which Indians are fit for election. The country's politicians are mostly an unsavoury lot. Of the 522 members of India's current parliament, 120 are facing criminal charges; around 40 of these are accused of serious crimes, including murder and rape. Most Indian politicians are presumed to be corrupt, which is less surprising. In India's poor and fractious society patronage politics is inevitable. But Indian politics has got much muckier in recent years because of two factors: the rise of regional and caste-based parties, nakedly dedicated to delivering patronage; and the mutinous coalitions this has led to.

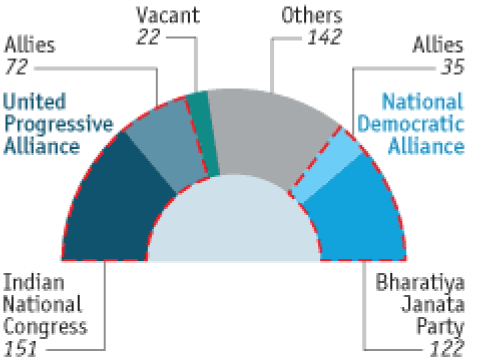
In 2004, after eight years in the wilderness, Congress returned to power after winning 145 seats in parliament. The BJP, which had run a fairly competent coalition government under Atal Bihari Vajpayee, won 138. To form a government—for which 272 seats are required—Congress put together the United Progressive Alliance (UPA) with 12 other parties. Ruling in this arrangement would have been hard enough, but the UPA was still short of a majority. So Congress recruited "outside " support from another five parties, the most important of which was a coalition of Communist parties, the "Left Front".

Suspended animation

This absurdly complicated and unrepresentative government has turned out to be more enduring than many expected. For Congress's leaders, indeed, its survival is a formidable achievement: the party had never managed a coalition before. With competent managers in the main economic ministries, the government can also take some credit for India's strong economic performance. But it has failed to pass almost any of the reforms India will need to keep up that performance. The Communists were the most obvious blockage; they opposed every liberal proposal on principle. But more broadly, like India's vast bureaucracy, the government has expended far too

much energy merely to sustain itself.

The nuclear deal epitomised its weakness. As a bilateral agreement, signed by Mr Singh and President George Bush in 2005, it did not need parliamentary approval. But because of opposition from the Communists the government was unable to seek the necessary approvals for the deal from the International Atomic Energy Agency and the Nuclear Suppliers' Group, a club of 45 nations. All last year this stand-off dominated the government's business. The deal was said to be off, then on, then off again. Pranab Mukherjee, a senior Congress leader who is close to the Communists, mediated between them and Mrs Gandhi. This left regrettably little time for his other job, as India's foreign minister.



Source: Lok Sabha Secretariat

In September 2007 Congress's regional partners urged Mrs Gandhi to forget the nuclear pact rather than risk an early election. She agreed. The deal was resurrected in June only after Mr Singh allegedly threatened to quit. The Communists walked out. But the government survived by recruiting a new ally, the low-caste Samajwadi Party (SP) from Uttar Pradesh.

The hope had been that the government, relieved of its Communist allies, might push through a few financial-sector reforms. In the event, reduced to a minority, now squabbling with the SP and with an election season coming, it has felt too weak even to try.

This is troubling. It indicates the risks India's governments will increasingly have to take to get support for any bold policy. Reaching a consensus is becoming impossible, so fragmented is the polity. In the 2004 election Congress and the BJP mustered only 283 seats between them, a record low and only 11 more than is needed for a majority. Both parties saw their share of the vote decline. Congress's shrank more, to 26.7%, almost a record low. Yet it increased its share of seats, partly because the BJP's vote was spoiled by smaller parties. Congress nonetheless got the opportunity to form a government, for a reason beyond either party's control: the BJP's allies fared unexpectedly badly.

All that can confidently be said about India's next government is that it will be a coalition, probably led by Congress or the BJP. If neither party can make the necessary alliances to get a majority, there is a slim third possibility: a government led by a regional, caste-based or conceivably even Communist party, with "outside" support from one of the two national parties. Such an arrangement could make the current government look positively united and progressive.

Elections this month in three important northern states, and six states in all, should offer clues as to which scenario is the most likely. As this special report went to press, results were pending from Rajasthan, Madhya Pradesh and Chhattisgarh, which are all currently held by the BJP. A sweep for either of India's main parties would be a big boost, though not conclusive, as the BJP found in 2004. It called that general election six months early, on the back of poll victories in those same northern states, and lost. Results are also due from elections being held this month in Delhi, which Congress has ruled for a decade; in Mizoram, a small north-eastern state; and in troubled Jammu and Kashmir.

The general election will be an important test of Congress's ability to reverse its long decline. Since 2004 it has scored some modest hits. Besides survival, its government has a number of lavish welfare schemes to boast about, including a programme of public works that it claims will provide work for 30m households this year. But the recent turn of events in India, including last month's terrorist attack in Mumbai, will make such things hard to boast of. And because Congress's state-level machinery is weak, it is not good at advertising even these small successes.

This reflects the party's highly centralised leadership structure, based on the cult of the Gandhi family of which Sonia is the current representative. The Italian-born widow of Rajiv Gandhi, a fourth-generation leader of Congress and of India who was murdered in 1991, Sonia was persuaded to take over the party in 1998. She, like this government, has done a bit better than expected. But even if Mrs Gandhi was better than she is, she could not restore Congress to anything like its former power.

The Gandhi factor

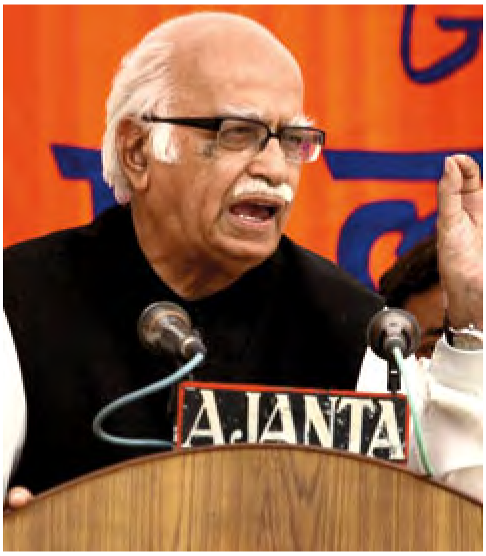
For almost four decades it ruled India by relying on three main groups for support: Muslims, high-caste Hindus and Hindu *dalits* (formerly "untouchables"). The fragmentation of Indian politics is partly a consequence of these groups turning to other parties. Congress's performance in general elections does not fully reflect this: it actually does better at the centre than in the states, where patronage politics is more intense. That may be because of a residual fondness for the Gandhi family. But it will not restore the party's lost base.

Congress knows this. But having no strong ideology to unite its squabbling factions, the party's leaders remain forlornly faithful to the Gandhi dynasty. This was painfully obvious last year when the party charged Mrs Gandhi's 38-year-old son and heir apparent, Rahul, with restoring the party's fortunes in UP, India's biggest state. It is the ancestral seat of the Gandhis and also the birthplace of India's most powerful low-caste parties. Under Mr Gandhi's well-meaning but unimpressive leadership, Congress got 22 out 402 seat in UP. A party for *dalits*, the Bahujan Samaj Party (BSP), won a big majority.

In difficult times it would be reasonable to suppose that Congress is in for a hiding in the coming election. Even in good times Indian voters tend to be disappointed with their governments. Indeed, that was another reason why the BJP lost in 2004. The terrorist attacks in Mumbai should also improve the chances of the security-obsessed BJP. But it is not clear to what extent the Hindu nationalists can capitalise on this.

During the 1990s the BJP built a base of perhaps 15% of Indian voters—typically high-caste and from the north—who liked its Hindu-chauvinist creed, known as *Hindutva*, or "Hinduness". In power, from 1998 to 2004, the party tried to expand its base into a broad temple of right-of-centre nationalists. To avoid offending its allies, many of whom had Muslim followings, it also placed less stress on *Hindutva*. But after its 2004 defeat the party fell to feuding. Its modernisers were demoralised. Its Hinduist ideologues, a more powerful group, attributed the election defeat to insufficient *Hindutva*. In 2005 they forced the party's prime ministerial candidate, L.K. Advani, to resign as its leader.

Bloomberg News



Advani advances

The BJP's fortunes have since improved. In the past two years the party or its allies have won six out of 11 state polls. Congress has won in only three minor states. A victory for the BJP in May in Karnataka—its first in a southern state—was especially impressive. Mr Advani, an octogenarian bruiser, has also been reinstated as the party's prime ministerial candidate and unofficial leader. He has restored some of the BJP's old sense of purpose.

But this momentum may not take it very far. Badly as it did in 2004, the BJP performed well in a few populous northern states, including the three currently awaiting election results. If it loses ground there, as the anti-incumbency tick suggests it might, it is not obvious where it can make it up. In the past, when times were hard, the BJP responded by lambasting Muslims. But to do that, even after the outrage in Mumbai, would be a mistake—not least because the BJP urgently needs to recruit new allies.

A BJP-led government would offer India a better prospect of reform than the current arrangement, but possibly not much better. Compared with Mr Vajpayee's government, the BJP would probably be a smaller component of the coalition. And Mr Advani is not the deft coalition manager that Mr Vajpayee was. Whether Congress could make a better fist of bringing change, given another chance, would depend first on whether it was again shackled by the Communists.

Reuters

Of the other possible coalition leaders, one, the BSP, which is led by an autocratic former primary-school teacher called Mayawati, has captured India's imagination. The *dalit* party's victory in UP was a stunning achievement. Until then, caste-based parties had struggled to attract much support from outside their narrow base. The BSP succeeded, through skilful negotiations, by recruiting leaders of other castes, including brahmins. Thus it aped Congress's own historic strategy. If Mayawati can replicate this success in the general election, she could play a big part in deciding the composition of the government. UP alone commands 80 seats in parliament. And Mayawati is trying hard to increase her reach outside the state: in February she drew 80,000 people to a rally in

Delhi. She has declared her ambition to be India's first *dalit* prime minister.


Mayawati thinks big

That would be truly inspirational for members of a still downtrodden group. But it might be disastrous for India. Mayawati has a reputation for egomania and gross corruption (though this has never been stood up in court). Newspaper reports, working from her tax return, have estimated her personal income at $12m, twice the figure for her party. Her support for an unsuccessful scheme to append a shopping mall to the Taj Mahal, which is in UP, does not speak well of her judgment. India's democracy tax, like Mayawati's income tax, is rising. But so, at least to some extent, is its ability to pay.

Storm-clouds gathering

Dec 11th 2008
From The Economist print edition

What the world recession will do to India's economy

IT IS an acknowledged truth that the world's financial breakdown has proved the need for public ownership of banks, limits on borrowing abroad and strict prudential rules at home. Or so some Indian policymakers now reckon; and they have a case. Because India has been constrained in this manner, its economy has remained relatively undamaged by the global financial meltdown. India's banks are sound and its foreign debt is manageable.

Meanwhile, in common with others, India's stockmarket has crashed, losing 60% of its value this year. Foreign portfolio investors, who last year put in $17.4 billion, have turned tail. This has put pressure on the rupee, which has lost some 20% of its value against the dollar since January, when the market peaked. The global financial freeze has accelerated the currency's fall. Part of the problem may be that, unable to raise capital abroad, Indian companies have been turning to Indian banks for money. They then sell rupees for dollars to finance their foreign operations. To support the currency, the Reserve Bank of India (RBI), the central bank, has been selling up to $2 billion a day from its foreign-exchange reserves, which have dropped by nearly $63 billion from a high of $316 billion at the end of May. All this, on the back of two years of tightening monetary policy, has brought India its own credit crunch.

In response, since mid-September, the RBI has been trying to boost liquidity. Another benefit of a tightly controlled financial sector is that the central bankers have many options. On several occasions they have cut the minimum amounts that lenders must deposit with the RBI. For the first time in four years the RBI has also been cutting its main short-term lending rate, now at 6.5%. The rise in wholesale prices, which hit a 16-year high of 12.9% in August, is still well above the RBI's comfort zone, though dropping fast. But with investors struggling to find cash, the RBI is now worried about growth.



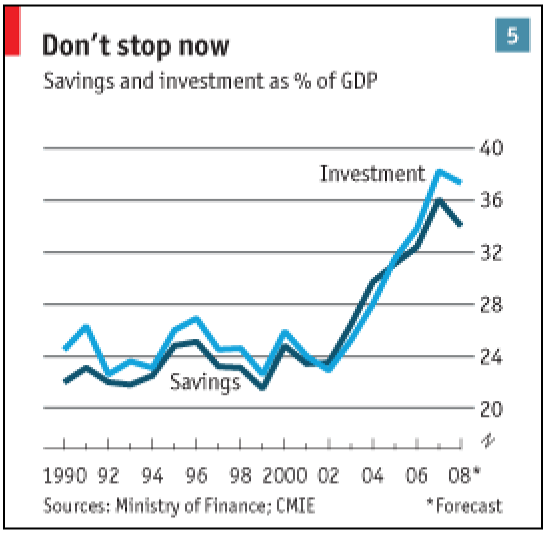
Even before global confidence dived, India's economy was slowing. In August industrial output was up by only 1.4% on a year earlier, nowhere near the 6% that had been expected. The RBI has already revised its forecast for GDP growth this year downwards, from 9% to 7.5%, and even that may be optimistic. Most independent forecasters see a further drop next year, possibly to 5.5%. That would be worrying, but India might still be the world's second-fastest-growing big economy after China.

Things could be worse. The weakening rupee is a blessing for India's exporters, especially its important computer-services industry, whose main market is American banks. Even so, merchandise exports are struggling; in October they were 12.1% down on a year earlier. But at least India is less reliant on trade than most emerging nations: exports amount to only about 22% of India's GDP. This is yet another historic weakness that India can feel briefly relieved about. More broadly, however, its economic performance justifies pride.

Like a rocket

Consider the growth figures. Between 1982 and 1992, on the back of some modest liberal changes to its mixed economy, India grew at an average annual rate of 5.2%. In 1991, prompted by a currency crisis, the government brought in swingeing reforms. Led by Manmohan Singh, then the finance minister, it cut taxes and tariffs and largely dismantled a

system of industrial controls (the "licence raj"). Between 1992 and 2002 the annual economic growth rate was 6%. It would have been higher but for a late dip, caused partly by the Asian currency crisis.



Since then India's economy has taken off with a whoosh. In the past five years it has recorded an average annual growth rate of 8.8%. If it could keep this up, India would be transformed, as China has been. Its $1 trillion economy would double in size in eight-and-a-half years. Poverty would be reduced at a speed previously unimaginable. This has generated huge excitement in India which the government has encouraged. The planning commission's latest five-year plan, which became operational on April 1st, envisages an average annual growth rate of 9%, rising to 10% from 2012.

Everyone agrees that India's long-term potential growth rate has leapt, but the size of the jump is hotly disputed. Optimists point to India's soaring investment rate. During the 1990s this was around 25% of GDP, but since 2003 it has averaged 35%. Encouragingly, this has boosted investment in manufacturing, of which India urgently needs more to create jobs. In the past five years Indian manufacturing has grown at an average annual rate of 9%, rising to 12% last year.

Parsimonious habits

The crowning reason for optimism, however, is the savings rate, which has risen in similar measure. Until recently India's investment splurge has mostly been covered by domestic savings: as a share of GDP, savings have risen from 28% in 2003-04 to 35.5% last year. This is a China-like level, and explicable by the same demographic change that China has undergone. India's bulging working-age population gives it a high ratio of earners to elderly dependents. A young population should be sufficient to keep India's savings rate close to the current level for the next two decades.

This, the "shining India" story in a paragraph, has also caused excitement abroad. Until this year India, like all emerging markets, had seen a surge in foreign investment, but most of it was speculative. In the past two years, however, foreign direct investment has been catching up. In the first quarter of this year inward direct investment was worth $10 billion, more than twice the equivalent figure for last year.

Yet there are some darker sides to this hopeful tale. The first is inflation. At its recent rate of growth the economy was prone to overheat. This became apparent early last year: as credit soared and the current-account deficit widened, inflation jumped to nearly 7%. That was why the RBI began tightening. The subsequent spike in commodity prices contributed even more to India's inflationary surge.

At the same time, nearing the end of its term, the government has been on a spending spree. Public expenditure has risen by over 20% in each of the past two years. This has returned India's public finances to their traditional mess, after a temporary improvement thanks to buoyant tax revenues. Economists at Goldman Sachs expect a budget deficit of around 8.4% this year.

If only the spree had been more productive: a massive investment in India's infrastructure would have been overdue. Instead, the government's largesse was handed out in the usual wasteful ways—on oil and fertiliser subsidies and public-sector pay increases—and on some high-profile welfare schemes.

Madcap subsidies

India's subsidy policies are crazy, as all its governments have realised. But none has been able to change them much. For example, the government hands cash, in ever bigger quantities, to manufacturers of nitrogen-based fertilisers. They produce lots of low-cost, poor-quality fertiliser with which Indian farmers poison their fields and themselves. The government's spending on fertiliser subsidies is expected to run to $23 billion this year. The total subsidy bill is estimated at over 3% of GDP.

Making nitrogenous fertilisers uses a lot of natural gas, which increases India's reliance on oil to meet its energy needs. India imports 75% of the oil it uses. Alas, it also subsidises petroleum products, including

petrol, kerosene and diesel, by fixing the price at which they are sold to consumers. India taxes these products as well, so the subsidy is smaller than it appears. But this still makes the budget finances hostage to the oil price, now mercifully falling.

Alamy



Ripe for reform

India's fiscal problems are nothing new: its deficit has often been around 10%. As it happens, the most recent splurge is well timed: the first tranche of a civil-service pay rise was handed out in October, just as worries about inflation gave way to fears about growth. What is new is India's realistic hope of sustaining economic growth of 8% a year. Inefficient government spending puts this at risk.

Because the government eats up so much of India's savings, the country relies unduly on foreign capital to sustain its high investment rate (its current-account deficit recently widened to about 3.5% of GDP). High public spending also contributes to inflation, which limits the RBI's freedom to cut interest rates. If the current high cost of borrowing deters private investment, the government will have little scope to offer a public alternative. The investment rate will then come down, and growth with it.

Sadly, the prospects of either this government or its successor dismantling the subsidy raj are dim. Perhaps the petrol subsidy, for which there is no obvious justification, may be eased, though not this side of the election. But the more ruinous kerosene subsidy is likely to remain as long as most poor Indians have no access to electricity; no matter that, by an official estimate, half the supply of subsidised kerosene is creamed off by corrupt middlemen.

The government's profligacy makes it all the more essential that it retains the confidence of private investors. The best way would be to surprise them with some long-awaited reform. Even bullish Indian economists, confident in a high-growth future, say as much. According to Arvind Virmani, the prime minister's chief economic adviser, the medium-term target of a 9% GDP growth rate "was clearly based on an assumption that we will push ahead with reform…Given the global crisis, it's important that we accelerate reform if we want to meet the target."

Asked what reforms are most pressing, Mr Virmani tosses over a book in which he describes them. They include, in order of importance: fiscal reform, including of subsidies; privatisation of public enterprises; opening state-controlled banks to more private ownership; reform of India's throttling labour laws; and liberalising certain industries, including coal and sugar. Mr Virmani's book was published in April 1999. Hardly any of its prescriptions, he notes, have been followed: "We have to start acting faster."

Reformists in the government appreciate this. On October 30th the cabinet approved a draft bill on insurance reform. If passed, it will include raising the current 26% ceiling on foreign ownership of Indian firms to 49%. This is one of seven financial-sector reforms (others cover banking and pensions) that have been awaiting approval for four years because the Communists were obstructing them. The insurance bill was supposed to come before parliament this month, but even if it does, there would not be time for it to be approved under the present government.

Reasons for hope

What reforms the next government might introduce will depend on the make-up of its coalition. It will depend, too, on how serious the slowdown is. Sadly, there seems almost no prospect of another raft of liberal measures. Yet there are some slim reasons for hope.

One is duress. A fiscally straitened government can either cut spending, which would be difficult, or boost revenues. In a slowing economy it might therefore consider selling a few of the state’s many loss-making companies. Another, more tentative, reason for hope is political. In middle-class India, especially, the recent run of high growth has become a source of national pride. So it is reasonable to hope, at least, that more politicians will make sustaining rapid economic growth their highest priority.

The third reason is intellectual. India has, so far, been proved right in opening its financial sector to globalisation only cautiously. But in a more carefully regulated world it should become less reluctant.

The world is rocky

Dec 11th 2008
From The Economist print edition

But India's computer-services firms are in good shape to survive the financial crisis

INFOSYS, one of India's biggest and trendiest outsourcing firms, set nerves jangling on November 14th when it said it would give its workers year-long sabbaticals to do charity work. Or gardening, wise guys said. India's computer-services companies, which derive around 85% of their revenues from exports to America and Britain, and 30-40% from financial-services work, will be hit hard by the financial crisis. In October Infosys—or Infy, to its friends—cut its predicted revenue growth for the year to 13-15%. In an industry that has grown by nearly 30% a year for the past decade, that would be bad.

Since Lehman Brothers went bust in September and financial markets froze, India's outsourcing firms have struggled to clinch deals. "It's been tough," says Girish Paranjpe, boss of Wipro, another Indian IT-services giant that had big contracts with Lehman. Next year could be worse: by one estimate, IT spending in America could fall. A big slowdown in India's IT industry, which employs 2m people, would be a blow to the national economy. Computer services, with annual revenues of over $50 billion, account for about 16% of India's exports. The indirect effect could be far-reaching: India's success in IT is a national confidence-booster and an important incentive for the engineering colleges mushrooming in south India.

Most Indian computer-services companies are at least in fighting form. Smaller firms, which offer imaginative—and perhaps dispensable—niche services could struggle in a slowdown. But the biggest have little debt and lots of cash. As much as 80% of their revenues, moreover, come from essential services—"keeping the lights on" in industry-speak—which their customers could not easily cut back. Before the financial meltdown the failure of India's computer-service companies to offer higher-value functions—such as consulting, which accounts for less than 10% of their revenues—was considered their main weakness. In current conditions it may prove a strength.

The upside

Harder times have already eased another industry problem: ballooning wage bills, driven by a shortage of skills and the butterfly habits of Indian IT workers. Most big firms are hiring fewer people this year: Tata Consultancy Services (TCS) will recruit 30,000, a huge number but down from 35,000 last year. Partly because of falling demand, the average rise in IT wages has halved, to around 10% a year. Attrition rates have fallen by a similar amount. Nandan Nilekani, a former boss of Infosys, which has $2 billion in the bank and no debt, says a slowdown will be an opportunity for some useful "re-tooling".

Mr Nilekani is loth to draw a comparison with the previous global downturn, in 2001, when growth in India's computer-services slowed down a bit and then rebounded vigorously. The current slump is far more serious. But Indian IT firms still see opportunities in it. Several, including Infosys, are looking around for cut-price acquisitions. In October TCS agreed to buy Citigroup's Indian back-office operation for $505m. One of TCS's bosses, N. Chandrasekharan, says recent mergers between big Western banks may also send fresh business to India: the job of integrating huge IT systems is the sort of labour-intensive work in which its firms excel.

Another fear for India's IT firms is America's new president. Barack Obama has promised tax breaks to American firms that resist the temptation to shift work abroad. India's IT firms already enjoy a tax break that is due to run out in 2010 but may now be extended. Of course it would be better if all these companies paid their dues and got on with business; but that is another story.

Creaking, groaning

Dec 11th 2008
From The Economist print edition

Infrastructure is India's biggest handicap

TO KNOW why 1,000 Indian children die of diarrhoeal sickness every day, take a wary stroll along the Ganges in Varanasi. As it enters the city, Hinduism's sacred river contains 60,000 faecal coliform bacteria per 100 millilitres, 120 times more than is considered safe for bathing. Four miles downstream, with inputs from 24 gushing sewers and 60,000 pilgrim-bathers, the concentration is 3,000 times over the safety limit. In places, the Ganges becomes black and septic. Corpses, of semi-cremated adults or enshrouded babies, drift slowly by.

India's sanitation is execrable. By one estimate, only 13% of the sewage its 1.1 billion people produce is treated. An estimated 700m Indians have no access to a proper toilet. Water-borne diseases caused by poor sanitation are a big reason why India's children are so malnourished. This might sound familiar. Almost a century ago Mohandas Gandhi disparaged a book about India by Katherine Mayo, an American novelist, as a "drain-inspector's report". India needs to follow a simple mantra: "Fewer inspectors, more drains".

The general rottenness of India's infrastructure has long been recognised as the likeliest constraint on the country's economy. In the past year or two the problem has become extremely urgent. India's ports, roads, railways and airports have been operating close to—or beyond—capacity. It takes an average of 21 days to clear import cargo in India; in Singapore it takes three. The Jawaharlal Nehru Port Trust in Mumbai, which handles 60% of India's container traffic, has berths for nine cargo vessels; Singapore's main port can handle 40. With the number of air passengers in India growing at 30% a year in the past two years, the creaking of its four main airports was almost audible.

India's 3.3m km road network is the world's second-biggest, but most of it is pitiful. Its prize national highways—a vaunted infrastructure success of the previous government—account for only 2% of the total, and only 12% of them, or 8,000km, are dual carriageways. By the end of 2007 China had some 53,600km of highways with four lanes or more. India's urban roads are choked: the average speed in Delhi has fallen from 27kph (17mph) in 1997 to 10kph. All of the country's roads are perilous, even before a million Nanos a year are added to them, as predicted by Tata, the car's maker. Last year 130,000 people died on India's roads, 60% more than in China, which has four times as many cars.

An even bigger worry is India's shortage of power. Last year peak demand outstripped supply by almost 15%. In Pune, an industrial town in Maharashtra, businesses were cut off for 24 hours at a stretch. At such times computer-services firms grumble and switch on their generators, but factories shut down. According to the World Bank, 9% of potential industrial output in India is lost to power cuts. Some 600m Indians have no mains electricity at all.

The government has given unprecedented attention to India's infrastructure deficit, with some decent results. Following in its predecessor's footsteps—despite the Communists' rowdy objections—it has pushed public-private partnerships (PPP) for building roads and airports. Hyderabad and Bangalore each opened a new airport this year. By 2010 the main airports in Mumbai and Delhi will have been modernised. The government has also launched a plan to build a 1,500km road and rail network, linking Delhi to Mumbai, and studded with manufacturing hubs. It will require a total investment of $100 billion and is meant to be completed by 2013. But this is still nowhere near enough.

India's urban population is expected to double over the next two decades, to 575m, yet its cities are already choking. Mumbai, South Asia's biggest city, has 17m inhabitants, half of whom live in slums. The city's rail network is overloaded and its roads are clogged up.

Magnum Photos

Why nothing works

There are two main reasons for the decrepitude. First, tight land

and rent controls have destroyed Mumbai's land and property markets. For fear of being stuck with immovable tenants, for example, landlords have left an estimated 40,000 properties vacant. The second reason is long-standing underinvestment in Mumbai by the state government of Maharashtra. It has preferred to divert Mumbai's revenues to rural Maharashtra, which has more voters. To protect this source of patronage, it has also sabotaged Mumbai's municipal government. India's giant cities need powerful mayors to manage their development, as China's cities have, but state governments are opposed to the idea. Maharashtra's has nonetheless embarked on a $60 billion makeover of Mumbai, including new roads, rails and a metro line. It is promising, though greatly delayed.



A matter of drains

India plans roughly to double its investment in infrastructure, to $475 billion over the next five years, or about 8% of GDP a year. But this year's investment is likely to be only around 4.6% of GDP, and it is not clear where the extra cash will come from.

The government expects private investors to contribute three-quarters of the additional investment in infrastructure and 40% of the total. But they were wary even before their credit crunched. Many cite the shallowness of India's corporate-debt markets as an obstacle. Innumerable bureaucratic and legal impediments are also putting them off. A vaunted scheme to encourage big privately owned power stations, called "ultra-mega power projects", promised that these obstacles would be cleared in one go, but in reality a dozen permissions at both central and state level are still required. With greenfield developments proliferating in India, this bureaucratic process, riven with corruption, has earned the moniker "the permit raj".

Public-sector projects get equally bogged down. The boss of the Delhi Metro Rail Corporation, a hugely successful venture, describes having to go personally to Delhi's chief minister on several occasions to get permission to fell a few trees. He was fortunate to have a helpful patron. According to Amitabh Mundhra of Simplex Infrastructures, a big infrastructure builder, having to rely on the government to obtain bureaucratic approvals is a strong reason for not going into partnership with it: "India is not often feasible for PPP."

Alamy



Still fixing primary education

Powerless

Attracting private investment is hardest where it is needed most, in power. In the next five years the government plans to increase India's generating capacity by an annual 14%, or 90,000MW. That should not be too ambitious. China added 100,000MW in 2007. But India will not meet its target; it never does. Last year it added only about 7,000MW, and that was a considerable improvement on the recent past. Consultants at McKinsey argue that India's power-generation targets are in fact much too modest. They prescribe an extra 20,000-25,000MW a year, which would involve a $600 billion investment over the next

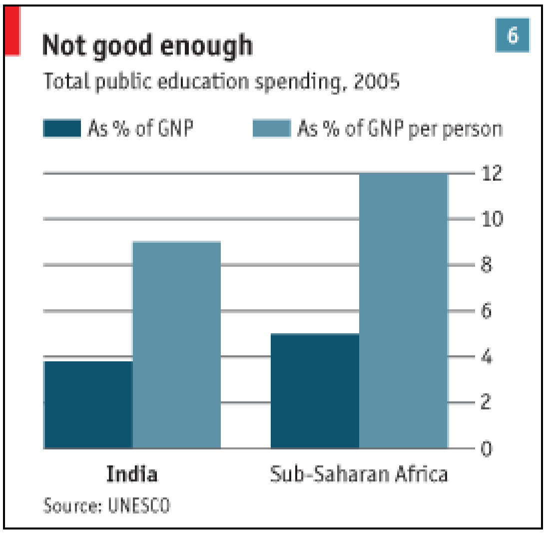
decade.

That would require a huge increase in private investment. But private investors fear they would not get paid for their electricity, because state governments, which control most of the sector, like to give it away to voters, especially farmers, or allow it to be stolen.

The state electricity boards are therefore bust. To deal with this problem, the central government introduced a bold reform in 2003 which sought to separate (or "unbundle") power generation, transmission and distribution. But many of the states have ignored or undermined this law, so 35% of India's power is still stolen. Before an election in Punjab last year the state government promised free power to farmers even though it was already covering losses by the state utility that accounted for more than half its fiscal deficit. (It still lost the poll.)

Where reform of the system has started, things have improved. In north Delhi, where distribution has been privatised, the theft rate has dropped from 48% to 18%. In September the central government tripled a financial incentive available to the states for developing the power sector, which it hopes will stimulate healthy competition among them. But it is equally possible that the worst-performing states will slip further behind. Five of them contribute 80% of the total losses of India's state utilities, and five better-governed ones contribute 78% of the cash profits.

In 2005 the government recognised power as one of Indians' "basic human needs". Alas, its abysmal record on supplying Indians with basic health care and education, to which they have long been entitled, suggests that this will not necessarily deliver the goods.



Primary education is a particular worry. It is hard to teach illiterate Indian women basic hygiene. Illiterate men are not equipped for productive employment. Yet in 2001 only 65% of the population was literate, optimistically defined, compared with 90% in China, even though every Indian government for the past two decades has vowed to fix primary education. The current government is no exception. It has increased the overall education budget, but not much. Last year it represented 2.8% of GDP, about half the figure in Kenya.

At least almost all Indian children now go to school: a survey of 16,000 villages carried out last year by ASER, an NGO, put the enrolment rate at 96%. But it also pointed to the appalling quality of education on offer. Half of ten-year-olds could not read to the basic standard expected of six-year-olds. Over 60% could not do simple division. One reason is that, according to a World Bank study, only half of Indian teachers show up to work. Half of Indian children leave school by the age of 14.

Let the market provide

Or rather, many of them turn to private schools, on which poor Indians spend 2% of their incomes. Many of these are wholly unregulated, but apparently no worse for it. A study of a Hyderabad slum, by James Tooley of Britain's Newcastle University, found that of 918 schools, 35% were government-run, 23% were private but officially approved, and 37% were informal. The private schools were better. In a standardised test the informal private schools actually came out best, with an average mark of 59.5% in English, compared with 22.4% in the government schools.

Clearly the government should support the grey market in education that its own failings have given rise to. It should make it easier for private schools to get approval. Their teaching materials could then be upgraded and standardised. ASER's survey also suggests that, with a few sensible steps, big improvements are possible even in state-run schools. By making teachers accountable to local governments, Bihar, India's most unlettered state, roughly halved its truancy rate last year. A draft law awaiting parliamentary approval would make similar changes across India.

Higher education is another candidate for reform. In the past five years the rate of enrolment in higher education has taken off, from 7% to 13% of young Indians. But the quality of teaching at India's 348 universities and some 18,000 colleges is generally poor. NASSCOM, the IT industry's lobby group,

reckons that of the 350,000 engineering graduates who emerge each year, mostly from private colleges, 25% are unemployable without extensive further training, and half are just unemployable.

In response to an urgent need, the central government has announced plans for 30 new centrally run institutions. These will not be first-rate. In a recent ranking of the world's 500 best universities by Shanghai Jiao Tong University, only two were from India. But the new central institutions will be much better than most Indian public universities, which are run by state governments. In these places the teaching is mostly dreadful, syllabuses are outdated and facilities can be a health hazard.

Many private establishments (which must be affiliated to a public university and cannot be run for profit) suffer the same deficiencies. With demand for higher education outstripping supply, they have little incentive to improve. Cumbersome and politicised regulators add to their woes. Getting approval to open a nursing college in India can take years even though there is a dire shortage of nurses, with only 30% of nursing jobs in rural hospitals filled. Almost the only investors who would submit themselves to this process are the politicians who control it, and indeed many of them own universities.

In a recent paper on India's higher education, Pratap Bhanu Mehta and Devesh Kapur call it "the collateral damage of Indian politics". For corrupt state-level rulers, a tightly regulated university system has many benefits. Politicians, or their lackeys, collect bribes for appointing faculty, admitting students and awarding good grades. They insert their supporters to run the racket. Having destroyed a public university, they then grant themselves permission to open a private one from which, illegally, they milk profits. India's politicians would clearly be mad to reform this system.

Where invisible threads fray

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A litany of trouble spots

AS AN assault on the commercial heart of India, the terrorist outrage in Mumbai on November 26th-29th was unprecedented. Previous atrocities in the city, including multiple bomb blasts on its railway in 2006 that killed 180 people, were indiscriminate. But the attacks last month (which, like many before, have been blamed on Pakistan-based Islamist militants) pinpointed the rich and influential. Well-known Indian businessmen and 22 foreigners, mostly Americans and Europeans, were among the dead. For the first time in India, too, following al-Qaeda's example, the terrorists targeted Jews; an Israeli rabbi and his wife were killed.

Understandably, India's voluble English-speaking elite was profoundly shocked by this prominent desecration. It has become fashionable to describe the attacks as "India's 9/11". But the comparison, though forgivable, is imprecise, for two reasons. First, the 2001 attacks in America have become almost synonymous with the country's bellicose response, whereas India, happily, has been more restrained. The second reason is that outside the cosseted places where rich Indians and foreigners gather, Indians have long been used to conflict and terror.

Even before Mumbai, this had been a violent year. In Jaipur, Ahmedabad, Bangalore and Delhi, around 140 people were killed in a summer bombing spree by a terrorist group called the Indian Mujahideen. As India's first home-grown Muslim terrorist group—for so it is considered—the Mujahideen are a particular worry. They seem to be a subtly different sort of Islamist killer from those in Mumbai. They have emerged from a long campaign by Pakistani and Bangladeshi militants to stir revolt among India's 150m Muslims. Poor and often marginalised, they have many grievances. In a chilling letter claiming responsibility for the Delhi blasts, the Indian Mujahideen gave a list of allegedly state-sanctioned crimes against Muslims. They went on to say: "If you still think that the arrests, expulsions, killings, murders, fake encounters, tortures, sufferings, cases, trials and tribulations inflicted on us will not be answered back, then here we remind you: that those days have gone."

This was not the jihadism as displayed by the nihilists in Mumbai. In their complaints, if not their atrocious methods, the Indian Mujahideen may have more in common with India's horde of peasant revolutionaries, regional separatists and low-caste champions. All demand the legal protections that the Indian state guarantees—and often fails to provide. This goes a long way to explaining why India is much more violent than is often supposed. In the first 11 months of this year, according to the Institute for Conflict Management, a Delhi think-tank, nearly 2,500 Indians died in conflict.

Bloomberg News



Too many Mumbais

India's deadliest theatre is its north-east, where nearly 1,000 have been killed this year. In eastern and central India a Maoist insurgency has claimed around 600 lives. In Kashmir, where a separatist struggle melds into an Islamist-tinged proxy war with Pakistan, 525 have perished. The institute also recorded 27,000 "caste-crimes" against *dalits* last year.

Of mosques and temples

Yet apart from Kashmir, which carries a threat of international war, religious violence may be the most worrying of India's conflicts. Its usual cause, discrimination against non-Hindus, is profoundly corrosive of the state.

The rise of the BJP has contributed to Muslim and Christian grievances. During the 1990s it advanced

from anonymity to national power on the back of a single issue: a campaign to demolish a 400-year-old mosque in Ayodhya, in Uttar Pradesh, and build a temple to the Hindu god Ram in its place. The campaign was led by L.K. Advani, the BJP's would-be prime minister. Across India Mr Advani preached a thinly veiled message of communal hate. He was also present in 1992 when Hindu fanatics demolished the mosque in Ayodhya, sparking Hindu-Muslim riots across India. Over 3,000 people were killed.

Since winning power for the first time in 1998, the BJP has improved its reputation. Under Atal Bihari Vajpayee it also became known for liberal economic management. Many of its leaders are less Hinduist than nationalist. But the BJP's Hindu fanatics have not gone away. Their champion is Narendra Modi, the demagogic chief minister of Gujarat. In one of India's richest states investors eulogise him. But rapid economic growth is not the only thing Mr Modi is associated with: he is charged with complicity in a state-sponsored pogrom against Muslims in 2002 that left over 2,000 dead. The Indian Mujahideen identified this as one of their main complaints. The other was an ongoing war against Christians in BJP-ruled Orissa, waged by Hindu fanatics, in which 2,000 churches and Christian houses have been torched this year and over 50 people killed.

In most of India, it should be stressed, Hindus, Muslims and Christians live peacefully together. Mr Modi, who has been denied a visa by America, is considered an extremist even within his own party. Gujarat is also an outlier in India: at the confluence of Muslim and Hindu Asia, it has a history of religious massacres.

Such crises also bring out the best in secular Indians. Many NGOs are campaigning on behalf of Gujarat's Muslims. Before an election there last year *Tehelka*, an investigative magazine, published a brave report on the 2002 riots. It pointed the finger at Mr Modi, but he won the poll with a landslide.

The government claims to have dismantled the Indian Mujahideen, but a troubling precedent has been set. India is likely to suffer more terrorism from aggrieved Muslims which may draw a violent Hindu response. In September Hindu extremists—allegedly including a serving army colonel—exploded bombs in Maharashtra and Gujarat, killing six Muslims.



On Kashmir, which forms part of India's only Muslim-majority state, there is better news—though it might not be obvious. In June, after four years of relative calm, Indian-held Kashmir erupted into its biggest pro-independence protests for over a decade. They were sparked by a decision of the state government to give land to a Hindu shrine organisation. Over 30 protesters were killed by Indian troops.

Kashmir's ups and downs

These events shocked India's government. Since 2004, when peace talks with Pakistan started, the death-toll in Kashmir has been falling. The local economy, heavily reliant on tourism, has been growing fast. The government in Delhi seemed to think Kashmir had become manageable. That happy complacency is over. But the renewed protests might be seen as a useful redefinition of India's problem in Kashmir. Unlike the insurgency there, which is still burning, the protests were indigenous, spontaneous and mostly peaceful. According to Yasin Malik, a Kashmir separatist leader, "our struggle has transitioned to non-violence."

In the north-eastern states, alas, India's peacemaking record is wretched. The region's 42m inhabitants are among India's poorest and most rebellious. Manipur, on the border with Myanmar, has over 20 tribally based separatist groups—and also India's highest concentration of HIV. The army's counter-insurgency policy in Manipur, and across the north-east, has been to bribe the insurgents to keep quiet and squash those who refuse. With its new interest in trade, India is now taking these conflicts more seriously. It has made big investments in the region's road network, boosting its economy. But there is a long way to go before the north-east submits to being Indian.

Away from the border, India's Maoist insurgency is getting less attention. Its militants, known as Naxalites, after the West Bengali village where they launched their struggle in 1967, have spent most of the intervening years fighting each other. But in 2004 they united to form the Communist Party of India (Maoist). Its influence has now spread to 220 of India's 611 districts, of which 76 are considered "seriously affected". The Naxalites hold little territory, apart from some roadless forest in Chhattisgarh and Maharashtra. But they have an army of ragged revolutionaries estimated at 12,000, and big ambitions.

Increasingly, where Indians have grievances, as recently in West Bengal over land disputes, Naxalites crop up. They are a symptom of India's corrupt and malfunctioning state: thriving, in poor and crowded parts of Uttar Pradesh (UP), Madhya Pradesh and Bihar, where the district administration is weakest. In the short term, they represent a law-and-order problem which India needs to address more urgently. But in the end the only solution to the Maoist problem will be the Chinese one: rapid economic development.

That has already started to lessen India's caste divisions. Despised *dalits*, being landless, have been quick to migrate to India's cities, where the caste system is almost defunct. Caste prejudices survive mainly in the marriage market: in Delhi's newspapers, advertisements for a spouse often end: "SNSC"—which stands for "sorry, no scheduled castes." This attitude, the legacy of a centuries-old apartheid, will not die soon. But the urban trend in India is against endogamy. In a study of a small steel town in rural MP, Jonathan Parry, an anthropologist, estimated that 10-15% of households included someone who had married outside their own caste. In big cities the figure is higher.

Even in the countryside, where caste prejudice is still virulent, there is surprising change. According to a recent survey of 19,000 *dalit* households in UP by researchers at the University of Pennsylvania, *dalits* were much less poor and caste-bound than expected. In 1990 nearly three-quarters of *dalit* households in western UP earned a living from skinning animals, an "untouchable" occupation. In 2007 this had come down to 0.6%, apparently because the local *dalits* had got rich enough to refuse such employment.

This is cheering. It also raises hopes that India may start reducing poverty faster. By contrast, there is a danger that, as India modernises, religious conflict may increase.

India elsewhere

Dec 11th 2008
From The Economist print edition

An awkward neighbour in a troublesome neighbourhood

ON SEPTEMBER 26th Manmohan Singh expressed an unfashionable sentiment. Addressing George Bush in Washington, DC, he said: "The people of India deeply love you, and all that you have done to bring our two countries closer to each other." There is some evidence for this. According to a survey by the Pew Research Centre in June, 55% of Indians approved of Mr Bush. A big reason must be the nuclear deal between India and America: it has moved India's world.

It should provide India with some useful electricity. But the deal is much more significant for the country as recognition of its growing importance in the world. Even governments and commentators that disliked it—and there were many in Europe, including this newspaper—mostly agreed that the existing sanctions regime, which restricted sales of nuclear fuel and technology to India, was outworn. Most Indians considered the fact that the rich world was rewriting its rules for India to be more pleasing than any detail of the deal. Referring to its passage through the 45-nation Nuclear Suppliers Group (NSG), the *Times of India* gushed: "If the Beijing Olympics was China's coming-out party, the NSG waiver was India's."

That was silly. But the deal has also generated enthusiasm abroad. In his recent book, "Rivals", Bill Emmott, a former editor of *The Economist*, calls it Mr Bush's "Richard Nixon moment"—in reference to that American leader's historic overture to China. It is safe to assume, as Mr Emmott does, that Mr Bush's fear of a rising China, and his wish to bolster India against it, was the main motive for the nuclear detente. But what sort of rising power is India?

On foreign policy, in which until recently India had little interest outside South Asia, it is starting to look a bit like China. India's foreign service is still tiny, with around 600 diplomats. Its foreign trade, though rapidly growing, is also still relatively small. But India, like China, is increasingly writing foreign policy to meet its economic needs: chiefly, access to natural resources and foreign markets.

That was the message of a summit India held for 14 African leaders in Delhi in April. A decade ago India's two-way trade with Africa was twice the size of China's. It is now less than half the size, at around $30 billion a year. But that inaugural India-Africa summit also illustrated important differences from China in India's approach to building its economic ties. The summit in Delhi was dominated by private companies, which are leading India's overseas investments. This helps to ensure that India escapes much of the opprobrium heaped on China for consorting with dictators.

In fact, democratic India is often no more principled abroad than communist China. It refuses, for example, to condemn brutish governments in Myanmar, which has oil and gas that India needs, and in Iran, with which it is negotiating to build a $7.5 billion gas pipeline. Last year, in the thick of the nuclear-deal drama, America urged India to rebuke Iran. In a public statement, India told America to back off.

A messy part of the world

But India's biggest foreign worries, as the Mumbai terrorist strike has shown, are still in its messy region—especially Pakistan. In a sign of an enduring preoccupation with their neighbour, many Indians considered the nuclear deal most pleasing for having "de-hyphenated" their country from it: that is, for making a distinction between the world's biggest democracy and the nuclear proliferators next door. Speaking in a different tone, Pakistanis tend to agree: set against India's recent progress, their latest turmoil is humiliating.

Eyevine



Kashmir still divides the spirits

India no longer exults, at least openly, in Pakistan's problems; it worries about them. That explains the carefulness of its post-Mumbai message to its neighbour. India said that the terrorists were Pakistani, but not that Pakistan's government was behind them. It did not threaten Pakistan with a military reprisal, as it has done after previous terrorist attacks. Impressively, India apparently did not consider withdrawing from a four-year diplomatic effort to "normalise" its relations with Pakistan.

The process has been more or less stalled for over a year, mainly because of political chaos in Pakistan. But India has also contributed to the deadlock. In particular, it has seemed reluctant to settle the rivals' main dispute, on the status of the divided region of Kashmir.

India and Pakistan both claim all of Kashmir (though officially Pakistan says Kashmiris must decide their fate), and have fought three of their four wars over it. But both know that the current arrangement, in which India has the rich valley of Kashmir and Pakistan a poorer portion, is unlikely to change. Pervez Musharraf, who resigned as Pakistan's president in August, had therefore proposed legitimising it. As a sop to Kashmiris, and to Pakistani pride, he also suggested that the newly demarcated border in Kashmir should be a soft one.

There is no better solution. But India did not trust Mr Musharraf, so it dragged its heels. Mr Musharraf's successor as president, Asif Ali Zardari, has sounded even more accommodating to India: he has described Islamist separatists in Kashmir, formerly backed by Pakistan, as "terrorists". But so long as Pakistan is as unstable as it is currently, India will be unlikely to bite. Its latest attitude of angry forbearance towards Pakistan is, for now, probably as much peace as can be hoped for.

As a neighbour, India is itself far from ideal. It has a long history of meddling in other countries' politics, including Pakistan's. Nepal witnessed an embarrassing example of this in April, when India had its paw-prints all over the country's first proper election in a decade. Seeking to secure a pliable new government, its agents bribed and divided the field; this almost certainly helped a party of Maoist guerrillas, whom India disliked most, to a stunning victory.

Subcontinental hopes

Bangladesh, a semi-hostile nation of 153m delta-dwellers, which is currently under military rule and often under water, is another worry. Illegal Bangladeshi migrants are already sparking conflict in India's north-eastern state of Assam. As the seas rise, the UN's Intergovernmental Panel on Climate Change calculates that another 35m will have crossed into India by 2050. If only to manage climate-induced problems, South Asian countries have got to co-operate better.

Mr Singh's answer, to start by boosting regional trade, is the best there is. His vision is "to have breakfast in Amritsar, lunch in Lahore and dinner in Kabul". (And wake up in hospital, diplomats josh.) But there is a way to go. According to a World Bank report released last year, South Asia is the least integrated region in the world. Trade between its members accounted for less than 2% of their combined GDP. In East Asia the figure was 20%.

From this tiny base, there is at least a promise of an advance. A regional free-trade scheme came into effect in July 2006, though its progress has been painfully slow. Meanwhile, two-way trade between India and Sri Lanka, which signed a bilateral free-trade agreement in 1999, is ballooning. More important, as a

measure of the bilateral relationship that India is starting to worry about most, two-way trade between India and China is climbing: from $4.8 billion in 2002 to $38 billion last year.

That is still modest: China's trade with South Korea is worth four times more. But it is an encouraging basis for a relationship between two giant countries that fought a border war in 1962 and still claim portions of each other's territory. Those disputes continue to fester; last month Chinese officials reasserted China's claim to India's entire north-eastern state of Arunachal Pradesh. Indian strategic thinkers, who tend to be of a traditional bent, like to speculate about the circumstances that could drive India and China to conflict.

This is bold thinking: India's armed forces are, like its economic progress, at least a decade behind China's. India's defence spending is also less than half China's. But India does have an advantage over its giant neighbour in the way much of the world perceives it: as well-intentioned and democratic, maybe chaotic—but not inscrutable and possibly malign.

Difficult, and proud of it

That should be a big advantage for India. Indeed the nuclear deal is testimony to it. But India does not often return the world's compliments. It demands, and increasingly gets, a seat at the world table, but its table manners are sometimes regrettable. In international negotiations, on trade and climate change, India has a habit of obstructionism, in which it takes unseemly pride.

China has profited from this. At the most recent Doha-round negotiations at the World Trade Organisation in July, for example, a deal was blocked by India, China and America. But unlike its fellow protectionists, India seemed keen to take responsibility for this failure. Its obstreperous chief negotiator, Kamal Nath, was garlanded on his return to India—for having defied the Western imperialists. That sort of nonsense might play well with Indian voters, but it is bad for India's reputation abroad.

Ruled by Lakshmi

Dec 11th 2008
From The Economist print edition

Though inequalities are widening, India's best prescription remains continued rapid growth

UNDER the eye of Lakshmi, the four-armed Hindu goddess of wealth, a man in a suit and tie drags a small red car off a green paddy-field. Beneath this mural, in a village in West Bengal's Singur area, farmers are feasting on kedgeree and tea. They are celebrating a triumph for which many praise Lakshmi: a decision on October 3rd by Ratan Tata, chairman of the Tata Group and the man depicted below, to abandon a factory he was building on their fields. It was to have produced the little Nano car. A well-advertised fiasco, this symbolised for many India's next big problem: its difficulties in making land available for industrial development.

West Bengal's government, led by a pro-business Communist poet, Buddhadeb Bhattacharya, had offered Tata 1,000 acres of farmland. It had secured the land through a 19th-century land-acquisition law, which gives the government the right to take over privately owned land for the public good. But out of the 13,000 people who claimed a stake in the land, about 2,000 refused the government's compensation. After an opposition party, Trinamool Congress, swept local elections in Singur in March, the protests turned bloody. Mr Tata pulled the plug.

This sort of thing has happened before in West Bengal. Last year another bungled acquisition, for a planned petrochemicals hub, sparked violence in which at least 50 people were killed. Mr Bhattacharya was forced to move the hub. The central government, in turn, briefly had to put on hold a cherished infrastructure policy of which the hub was a part: a scheme for "special economic zones" (SEZs), or enclaves for export-driven businesses that offer light taxation and other perks. The government claims, optimistically, that the scheme will give a huge boost to India's industrial infrastructure and create 4m new jobs by the end of next year. Most states have also exempted SEZs from some labour laws.

Even by India's teeming standards, West Bengal presents an extreme case of the difficulties inherent in providing industry with land. Over 60% of the state is cultivated, so most greenfield schemes involve moving peasants—and where peasants have votes, this can be difficult. Yet the problem is not insuperable. Some 200,000 hectares (500,000 acres) of land has already been secured for SEZs, much of it purchased directly by the developer. The boss of Tata's automobile division, Ravi Kant, says that compared with infrastructure bottlenecks, getting hold of suitable land is a minor problem. Tata Motors has bought or been provided with land for four big greenfield developments this year, in Karnataka, Maharashtra, Uttarakhand and, as the Nano's new home, Gujarat.

It is also reasonable to hope that debacles like Singur will teach state governments to acquire land more carefully. A putative new law, drafted by the central government, would provide better compensation, including jobs, for the dispossessed. Also encouraging, though not for the disconsolate Mr Bhattacharya, was the way five states conspicuously competed to offer the Nano a new home. In choosing Gujarat, Mr Tata compared the helpful efficiency of its chief minister, Narendra Modi, with the Trinamool Congress's rabble-rousing leader, Mamata Bannerjee. It jarred with many people to hear the hate-mongering Mr Modi praised. Yet Mr Tata is a hugely respected figure in India—even the farmers feasting in Singur spoke highly of him—so this should serve as a warning to all India's political spoilers.

Panos

As competition among states grows, some hope that the overall performance of state governments will improve. That would be an enormous help. Many of the areas described in this report, including infrastructure, education, land and labour, are wholly or mostly controlled by them. If the centre introduces reforms in these areas, states can sabotage them.

Conversely, though, in the absence of reform at the centre—and, as this report has suggested, there is no reason to hope for much—the states can still make a lot of progress. Of India's stifling labour laws, for example, 47 are national and 157 are state-level regulations. A few states, including Andhra Pradesh

and Gujarat, have begun reforming theirs. Moreover, almost all states increasingly let companies evade these strictures, especially by using contract labour. As a result, India is seeing far less industrial action than it used to: for example, there were only 285 strikes and lockouts last year, compared with 674 in 2001. This does not deal with the problem of India's labour laws, which remain a serious disincentive for the large-scale manufacturing the country needs. But it illustrates one reason why India's prospects are less bleak than they sometimes seem.



Not the best place to do business

The rich are getting richer

Competition between the states, especially since the 1991 reforms, has widened the already huge disparities between them. The richer, better-run and more literate states—broadly, western India—have proved more attractive to investors than the poorer, more chaotic ones in the east. Between 1999 and 2008, when the Indian economy grew at an average annual rate of 7.3%, many richer states grew faster: Gujarat at 8.8%, Haryana at 8.7% and Delhi at 7.4%. Among the poorest and most populous states, Bihar grew at 5.1%, Uttar Pradesh at 4.4% and Madhya Pradesh at 3.5%. These parts of the country are a huge drag on India's performance. This explains, for example, why the World Bank rates India, which is home to many excellent companies, as only the world's 122nd-best place to do business—45 places behind Pakistan.

Sadly, there is not much evidence that rising standards in India's better states are percolating to their backward neighbours. A recent study by two economists, Laveesh Bhandari and Bibek Debroy, rated India's states on eight social and economic measures, on an overall scale of one to ten. The five worst, which accounted for one-third of India's population, scored 1.5 or less. There are just a few promising signs: for example, in Bihar, the state government of Nitish Kumar has been much better than its predecessor. But how much improvement it can bring to an abjectly poor state of 90m people, where only a third of the women can read, remains to be seen.

As India's economy grows rapidly, so will the regional disparities. Of 260 SEZs that have so far been fully approved, a big majority are in India's richest states, including 42 in Tamil Nadu, 38 in Maharashtra and 23 in Gujarat. This trend will exacerbate Indians' existing grievances and perhaps lead to more conflict. Managing this schism effectively would require enlightened and skilful government, of which India has too little and not much prospect of more. But, more important, it will require sustained high economic growth. So long as that happens, and it should, India's emergence will continue. It will not come as quickly as Indians want, or as quickly as it might, but it will be relentless. It will be sometimes exhilarating and often frustrating to watch. There is no country more remarkable.

Sources and acknowledgments

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Basic materials

Riding the rollercoaster

Dec 11th 2008
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Six firms in cyclical industries battle excess debt

Illustration by Claudio Munoz



IF A rollercoaster keeps cranking upwards for long enough it can be tempting to relax your grip—just for a moment. The bosses of some of the world's biggest basic-materials firms did exactly this and are now suffering. Lulled by expectations that industrialisation in China and other developing countries would ensure sustained demand, leading firms in the steel, cement and mining industries have entered the recession with far more debt than is normally viewed as prudent (see table).

Much of this reflects the ambitious acquisitions of 2006 and 2007. For the six leading firms reviewed by *The Economist*, cash spent on deals in those two years accounts for four-fifths of their total net debt of $136 billion. The steel industry's largest producer, the combined ArcelorMittal, has high gearing in part due to its cash-and-stock-financed merger, and the sixth-biggest producer, India's Tata Steel, is burdened by the leveraged takeover of its Anglo-Dutch peer, Corus. In cement, the world's biggest producer, France's Lafarge, bought Orascom Cement of Egypt, and the third-largest, Mexico's Cemex, purchased Rinker, a big Australian rival. Xstrata, the mining industry's serial acquirer, is highly geared, and giant Rio Tinto has record debts thanks to its purchase of Alcan. Last month BHP Billiton, a rival mining firm, withdrew a stock bid for Rio, saying its debts and the difficulty of making disposals raised risks to an "unacceptable level".

Weighed under

Cyclical firms' debt burdens, $bn

	Net debt	Market capitalisation	Leverage ratio*
Rio Tinto	39	32	2.3
ArcelorMittal	33	35	2.2
Lafarge	23	12	4.0
Cemex	16	8	4.4
Xstrata	15	9	1.8
Tata Steel	11	3	3.5
Total	136	98	2.6†

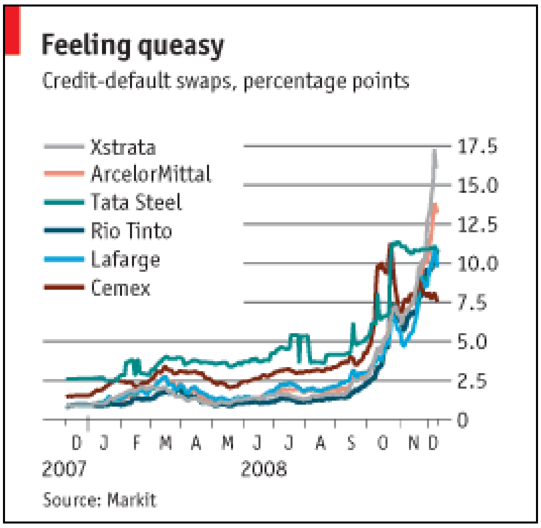
Sources: Company reports; Bloomberg

*Net debt to forecast 2009 EBITDA
†Weighted average

Such concerns are mirrored in the prices of credit-default swaps (CDSs), a type of insurance against bankruptcy, which have risen to alarming levels for all six firms (see chart). For those who mistrust the volatile CDS market, other red lights are flashing. As in past recessions profit expectations have fallen savagely along with demand and prices. From their peak, analysts' forecasts of operating profits next year have dropped by 30-50% for all six firms, leaving less cashflow than expected to support debt. Share prices have plunged too, so that net debt is comparable to, or well above, the firms' market capitalisations. Borrowing levels that seemed manageable in the boom now look rather high. Might they even pose a threat to these firms' survival?

There are no quick fixes. Raising equity is tricky since investors

have been sucked dry by capital-hungry banks. Dividend cuts would not help much: these firms sensibly stuck to stingy payout policies. Disposals could occur only at miserly prices, if at all, because most potential buyers have no access to funds themselves. Rio has abandoned plans to raise $10 billion from asset sales this year, for example.



That means the only option is to try to ride out the recession. But companies can do this only if they have enough liquidity (cash and undrawn bank lines) to refinance maturing debts. Relying on debt markets would be foolhardy: ArcelorMittal has managed to roll over some of its French commercial paper in recent weeks, but the prospects of being able to borrow large amounts on normal terms are bleak.

The good news is that all but one of these firms took a careful approach to structuring their debts. The exception, Cemex, has $8 billion of its $16 billion of net debt maturing in the next 18 months, according to Standard & Poor's, a rating agency, and only $560m of cash (excluding cash held as collateral). The Mexican firm is now trying to arrange a new debt package with a syndicate of banks.

The other five firms look more secure. None is in immediate danger of breaking its debt covenants. ArcelorMittal, Rio and Lafarge have sufficient liquidity to cover maturing debt for the next year or so. Xstrata and Tata Steel have two years' worth of cover. The latter also has a "get out of jail free" card: $6 billion of its $10.7 billion of net debt sits in Corus and is not guaranteed by the Indian parent company. In extremis, Tata could walk away from its costly acquisition. (This month Corus asked for aid from the British government.)

These firms also still expect to generate cashflow, just much less of it. With their liquidity buying them some time, next year will be about squeezing the business until the pips squeak. The acquisitions all made industrial sense, so synergies should boost profits: Rio, for example, has so far made only about a third of the savings expected from the Alcan deal, and Tata Steel is about halfway through its programme. Beyond such synergies, both Lafarge and ArcelorMittal have recently launched new cost-cutting plans. The slump means inflated costs for equipment and raw materials are falling, while inventories can be run down. ArcelorMittal hopes to release $5 billion of working capital over the next six months, which would cut its net debt by 15%.

But in the fight to survive the biggest weapons are cuts in production and capital spending. ArcelorMittal has led the way on the former, with a reduction of output by one-third that even its chairman, Lakshmi Mittal, calls "very aggressive". The cuts to investment plans are as dramatic: ArcelorMittal, Lafarge and Cemex have sliced their budgets for next year by between one-third and one-half, and on December 10th Rio cut its planned capital expenditure in 2009 from $9 billion to $4 billion. Xstrata has yet to announce its plans but a 50% reduction is possible. For the six firms combined, this would mean a $15 billion boost in annual cashflow—equivalent to about 18 months' worth of interest costs.

That, along with adequate liquidity for at least five of the six, makes survival likely. It also raises an intriguing question. The deals of recent years mean these industries are more concentrated and indebted than ever before. That in turn has forced huge, rapid cuts in actual and planned capacity, which could stabilise prices faster than in past downturns. It is a glimmer of hope during these bleakest of times.

Newspapers in America

OverZellous

Dec 11th 2008 | CHICAGO
From The Economist print edition

The Tribune Company files for bankruptcy protection

WHEN Sam Zell announced on December 20th 2007 that he had completed a deal to buy the Tribune Company—with holdings including the *Los Angeles Times* and the *Chicago Tribune*, an array of local television stations and the Chicago Cubs baseball team—he made a bold promise. A property tycoon with little experience in media, Mr Zell vowed to create "a fresh, entrepreneurial culture that is fast and nimble, and which rewards innovation". Tribune, he hoped, would represent the future of newspapers. He may be right, but not in the way he intended. On December 8th the company filed for bankruptcy protection.

America's newspapers have been in decline for years as readers and advertisers have migrated to the internet. In 2007 the total circulation for daily newspapers was 51.2m, 14% lower than in 2000, according to the Newspaper Association of America. Total advertising spending (print and online) fell by 8% in 2007 alone. This year has been even worse, thanks to the recession: in the third quarter it was 18% lower than a year earlier.

Mr Zell, who invested a mere $315m in Tribune's $8.2 billion takeover, soon proved an erratic captain on a sinking ship. Plans to save the business included, among other things, cutting staff and measuring reporters' productivity by their published column inches.

But Mr Zell's main strategy for survival was to sell assets. In May Tribune sold *Newsday*, a paper based in Long Island. But a scheme to sell its stake in the Food Network, a cable channel, collapsed. Most important was the attempt to sell the Cubs, their Wrigley Field stadium and a 25% stake in Comcast SportsNet Chicago, a cable network. Mr Zell hoped this might raise as much as $1 billion. After many delays, news came this month of at least three bidders for the Cubs. Yet just a week later Tribune filed for bankruptcy, excluding the team from its filing.

Mr Zell blamed the combination of falling revenues, the credit crisis and the wretched economy. Indeed, few could have foreseen that Tribune's ad revenue would drop by at least 15% in each quarter of this year so far. The collapse of the car and property industries, two big advertisers, did not help. Tribune might have been able to survive if it had not been loaded with $13 billion of debt.

Other newspapers are also in trouble. McClatchy, America's third-biggest newspaper publisher, is faltering under heavy debts after buying Knight Ridder in 2006. It is trying to raise cash by selling the *Miami Herald*. The *Minneapolis Star Tribune* and the *Philadelphia Inquirer* are also on the brink, according to Lauren Fine, an industry expert at Kent State University. And the *New York Times*, which has a $400m debt repayment looming in May, said on December 7th that its parent company might borrow up to $225m against its new headquarters. Bad news, indeed.

Advertising in America

Broadcasting gloom

Dec 11th 2008
From The Economist print edition

How badly will television advertising suffer in the recession?

THE Super Bowl is one of the biggest events on the advertising calendar, as companies vie to produce the most memorable and innovative ads. The battle for the National Football League's ultimate prize attracts more viewers than anything else on American television and provides a "symbolic pulse-taking" for the advertising industry every February, says John Frelinghuysen, an analyst at Bain and Company, a consultancy. But this year the patient is in poor health. All the advertising slots for the 2008 Super Bowl had been sold by the end of November 2007, despite the $2.6m price of each. For 2009 the price has risen to $3m, but at least ten slots (out of 67) are still looking for a buyer.

General Motors, which ran 11 ads on Super Bowl Sunday in February 2008, has already said that it will not run any in 2009. America's two other big carmakers, Ford and Chrysler, are likely to follow suit. Tellingly, Monster.com, an online job-search company, said recently that it was buying a slot. Instead of the usual parade of expensive ads paying tribute to American consumerism, 2009's Super Bowl will reflect a country in recession and herald a grim year for the advertising industry.

Most forecasts for next year say that ad spending in America will decline by 5% or more. Much depends on the fate of the automotive industry: carmakers and dealers normally spend around $20 billion a year on advertising, but Chrysler and Ford scaled back their expenditure by more than 30% in the first nine months of 2008, and are expected to make further cuts in 2009 as they struggle for survival.

The car industry's woes will hurt all media, but especially television. Analysts at BMO Capital Markets predict that total spending on television ads will fall by almost 9% next year. Only newspapers, where a decline of 12% is expected, are forecast to fare worse. Carmakers have already shifted some of their advertising spending to the internet, and are likely to go further in 2009. Car ads make up 25% of advertising revenues for local television channels, and carmakers have been among the most consistent buyers of high-priced ads on national television.

So far local stations have been most affected by falling spending on advertising. National stations have been more insulated, because they operate on longer-term contracts with advertisers. But in the new year they will also feel the chill, as companies fail to renew their contracts. Television, which has remained strong as print media have lost advertising dollars and readers to the internet, could enter a slump of its own. "Next on the list is TV stations," says Anthony Diclemente, a media analyst at Barclays Capital.

Advertising agencies are already suffering as their clients cut spending. For example, Omnicom Group, one of the industry's giants, depends on car companies for 14% of its revenue in America. It has started laying off workers. And even companies that can still afford to advertise may be less willing to pay for lavish commercials amid economic gloom. Federal Express opted out of the Super Bowl, for example, arguing that it would be insensitive to run a glittering ad. Jeff Goodby, co-founder of Goodby, Silverstein & Partners, an ad agency in San Francisco, says this anxiety is most widespread among publicly traded companies. "They can't look like they're lighting cigars with $100 bills in this environment," he says.

Although the prospects in America are bleak, there is some scope for optimism elsewhere. ZenithOptimedia, an arm of Publicis Groupe, another big agency, predicted this week that 89% of all growth in advertising spending between 2008 and 2011 will take place in developing countries. Miles Young, the newly appointed chief executive of the Ogilvy Group, yet another leading firm, sees the brightest prospects in India, China, Indonesia, Vietnam and Brazil. Television, he points out, is the most popular advertising medium in much of the developing world; strong growth there will, he says, help offset the declines in North America and Europe.

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Pharmaceuticals

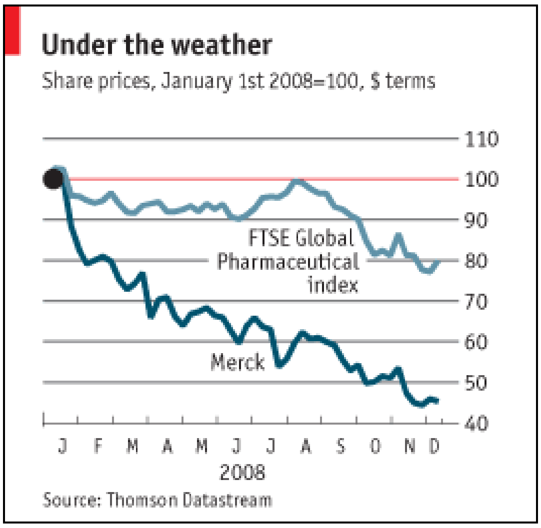
Winds of change

Dec 11th 2008 | WHITEHOUSE STATION, NEW JERSEY
From The Economist print edition

Merck's woes illuminate the shifts taking place in the drugs industry

DICK CLARK is no stranger to hard times. The chairman of Merck, a giant American drugs firm, got the top job after a safety scandal caused Vioxx, the firm's blockbuster painkiller, to be pulled from the market in 2004. The soft-spoken Mr Clark has won praise for his handling of that crisis and for being quicker than his rivals to start restructuring his firm in preparation for leaner years. He was also appointed head of Pharmaceutical Research and Manufacturers of America (PhRMA), the industry's lobbying arm.

But Mr Clark is not celebrating. Merck's shares have underperformed those of its rivals this year (see chart). Investors have worried that its efforts to find new sources of growth were not as vigorous as those of its peers, which have been buying biotech firms and generics-makers, replenishing their product pipelines and moving into new markets. On December 9th, at the annual business review conducted at the firm's headquarters in central New Jersey, Mr Clark announced yet another new strategy, involving low-cost biological drugs. He also spelt out PhRMA's softening stance toward health-care reforms that the group has hitherto opposed.



A revealing moment at the meeting came when one analyst mistakenly stated that Mr Clark no longer ran PhRMA. "Thank you for the offer," he joked, explaining that he holds the post until April—but it was clear that his words were only half in jest. Being the standard-bearer for the drugs industry has never been easy, but the job will get even harder. Mr Clark thinks 2009 will be "a year of transformation" both for the industry and for Merck.

One reason is the recession in America. Big drugs firms, including Merck, report that growth is slowing in that all-important market. Drugs were supposed to be recession-proof, but it seems that financially squeezed patients without insurance, or with big co-payments, are cutting back even on their medicines. Many drugs firms have responded by reducing spending on sales and marketing by 10-20%; this week Merck said it had made deep cuts in these areas without hurting sales. The firm has also made a big push into emerging markets. It thinks its revenues there may exceed its target of $2 billion in 2010.

But Mr Clark's main announcement was a bold $1.5 billion plan to enter the nascent market for "biosimilars", which are the biotech equivalents of generics. This will put Merck in direct competition both with generics firms, such as Teva of Israel, and with biotech giants, such as Amgen, which make the expensive products that biosimilars hope to replace. The reason to think Merck may succeed, argues Tim Anderson of Sanford Bernstein, a research firm, is that it has found a way to make biosimilars by culturing them inside yeast cells. This could be much cheaper and more reliable than the usual method, using mammalian cells.

The second transformative force is the pending reform of America's health-care industry. When Hillary Clinton tried to push through a plan for government-run health care in the 1990s, the drugs industry spent huge sums to help kill the initiative. This time, says Mr Clark, his industry wants comprehensive reform and even has "a seat at the table." Perhaps surprisingly, PhRMA now supports most aspects of health-care reform being mooted, from universal coverage to restructuring the insurance market.

However, this acceptance of change goes only so far. Push Merck officials on the prospects for drug-price controls, and their unflinching answer is that they are "completely opposed" to such European-style "rationing" of care. The industry makes much of its profit in the unfettered American market, and price

controls threaten that flow of cash. It argues that if limits are imposed on drug prices in America, there will be less to invest in innovation and everyone will suffer, since the rest of the world free-rides on American spending.

That argument is correct, in that businesses need the prospect of profit in order to invest. In practice, though, America is unlikely to impose draconian price controls. The more likely outcome is that government health schemes will start demanding discounts from drugs firms, and will buy more generics. Dr Anderson has crunched the numbers, and he reckons this need not lead to disaster. He reckons that a 20% cut in drugs prices paid by Medicare, America's health-care system for the old and disabled, will shave profits at the biggest drugs firms by a mere 5%.

So even if President Obama swings his budget axe forcefully, there will be plenty of money left for the pharmaceutical industry—provided, of course, that the companies keep coming up with genuinely new drugs. However, as Mr Clark has discovered, that is no easy task.

Luxury cars

Crash

Dec 11th 2008 | BLACKBUSHE
From The Economist print edition

Second-hand prices are plummeting as demand declines

THE Rolls-Royce Phantom nudges its way through a swarm of car dealers and into one of the sales halls at British Car Auctions in Blackbushe, Surrey, south-west of London. Only two years old, it is as immaculate as a new model costing more than £265,000 ($392,000). But within seconds the auctioneer has knocked it down for £135,000. Then it is on to the next in line: a Bentley Continental, a Range Rover, a Porsche Boxster and scores of Audi, BMW and Mercedes-Benz models. All are suffering the indignity of a collapse in second-hand-car prices as global demand for luxury and prestige cars dwindles.

Sales of new luxury cars in America were 39% lower in November than in the same month in 2007, according to Autodata, a research firm. Mercedes-Benz saw American sales sink by 43%, and Porsche by more than half. The story in Europe and Asia is similar. The producers, mostly European, are cutting back with extended factory closures and layoffs. In previous downturns the market for luxury cars was more resilient than the mass market, but not this time. Since the credit crunch, the readily available finance that made buying a fancy car easy has disappeared.

Many customers are trading down to less expensive vehicles or keeping their cars longer. To attract buyers for new luxury vehicles, some European manufacturers have been offering discounts and incentives that average more than $8,000 per car in America, according to Edmunds.com, another automotive-research firm.

With such big discounts available on new models, people expect to pay even less for second-hand ones. In Britain the average trade-in price in November of a one-year-old diesel luxury saloon—such as an Audi A8, a Jaguar XJ or a Mercedes S-Class—was 21% less than a year earlier, calculates EurotaxGlass's, a firm that monitors car prices. Richard Crosthwaite, who analyses prestige cars for the company, does not expect residual values to improve until the glut of used vehicles subsides.

That may take a while. Many such cars are acquired on two- or three-year leases. German manufacturers, in particular BMW, relied on leases for about three-quarters of cars sold in America, reckons Edmunds.com. This means more vehicles from the good times are still waiting to come off lease, and will end up in auctions. If residual values stay depressed, even owners with an option to buy when their leases end are unlikely to take up the offer.

The decline in residual values also makes life harder for carmakers' financing divisions and for vehicle-leasing firms, which are trying to raise cash in tighter credit markets. In November LeasePlan, based in the Netherlands and one of the biggest car-leasing firms with a fleet of over 1.3m vehicles, won a €1.5 billion ($1.9 billion) loan guarantee from the Dutch government. The firm, partly owned by Volkswagen, is eligible for state assistance because it has a banking licence.

Falling prices mean there are bargains to be had for those prepared to take on a used luxury car and its high running costs. At the Blackbushe sale a Maybach 57, an executive barge produced by a division of Daimler, fetched £66,000—which meant it had lost an average of more than £4,800 a month for 40 months. A two-year-old Mercedes-Benz R320 Sport and a year-old Land Rover Discovery 3 both sold for less than half their new prices. The trade-in value of a Porsche Cayenne, the epitome of a boom-time gas-guzzler, hovers around £20,000 for vehicles that cost £56,000 two years earlier, according to *Autocar*.

But some cars are better at holding their value. A diesel-powered Mini, made by BMW, tops the list of Britain's slowest-depreciating cars, retaining 63.2% of its value after three years, says EurotaxGlass's. Not surprisingly it is accompanied by other fuel-efficient cars, including the Citroen C1 (retaining 61.2%) and Toyota's Prius hybrid (55%). Yet three supercars also make the top ten: the Ferrari F430, the Lamborghini Murcielago and the Porsche 911 Carrera. The appeal of some exotic cars has yet to wane.

Car stylists

Slowing down

Dec 11th 2008 | ROME
From The Economist print edition

Italy's legendary car designers face hard times

MANY men dream of owning a flame-red Italian sports car: a Ferrari, a Maserati or an open-topped Alfa Romeo, like those that appear in the films of the 1960s. These cars owe their elegant lines to the teams of designers at Pininfarina, Bertone and Italdesign, the styling houses based in Turin, in north-west Italy. But as the demand for fancy cars collapses, the car stylists are in difficulty.

On December 3rd Pininfarina's board agreed measures that will provide breathing space for the troubled firm. It has debts of some €600m ($780m), and 2008 is shaping up to be its fifth lossmaking year in a row. In 2007 it lost €114.5m on revenues of €713m. In a complex debt-for-equity swap, the Pininfarina family will dilute its 50.6% stake to reduce the total owed to the banks by €180m.

From its beginnings in the 1930s, Pininfarina has both designed and built specialist car bodies. One of its more recent creations was the dinky StreetKa roadster, of which it built about 37,000 units—the first Ford to be built in Italy. But its involvement in production, as well as design, has exposed it directly to the turmoil of the car market. About half of its 2,600 workers now build cars such as the Alfa Romeo Spider, sales of which fell from 3,400 in the first half of 2007 to 2,000 in the same period this year.

Bertone had already discovered that low-volume runs of specialist cars do not make money. Launched in 2000, the last Opel Astra Cabrio left its production line several years ago. The shop floor has been silent ever since. Earlier this year a court in Turin declared Carrozzeria Bertone, its manufacturing arm, insolvent.

Italdesign, established 40 years ago by Giorgetto Giugiaro, a leading designer, ventured just once into production, assembling 456 units of the BMW M1 it had styled in the late 1970s. It has since worked solely in design and engineering, moving beyond cars into product-design and architecture. Stile Bertone, an independent styling house unaffected by the insolvency of Carrozzeria Bertone, has diversified in recent years into nautical, aeronautical and industrial design. Pininfarina designs trains as well as cars.

Such diversification makes sense. Carmakers are less keen to outsource low-volume runs of specialist cars, and are turning less often to outside styling houses. Like many others, the stylists see little future in the car business.

Business in China

Recession's blessing

Dec 11th 2008 | HONG KONG AND SHENZHEN
From The Economist print edition

Falling Western demand is keeping high-quality Chinese goods in China

ON THE shelves of Chinese shops is the usual assortment of toys, clothing, appliances and cookware. But over the past month the quality of many of the goods on offer has improved. In part this is because scandals over toxic paint and poisoned milk have brought closer scrutiny from inspectors and hence less corner-cutting. But it is also partly because of falling demand for Chinese goods from America, Europe and the Middle East, which has given China's manufacturers and local government a big incentive to work around the country's formidable export-promotion policies and to sell at home.

Chinese manufacturers are well aware that they operate in one of the few large markets that is still showing a pulse. Retail sales in October were up by 22% compared with the same month in 2007—a slight drop from 23.2% in September, but an impressive figure nonetheless. That certainly exaggerates the country's economic vigour (growth in car sales, for example, is declining), but it would be a stretch to believe that China is in recession.

As domestic consumption booms, China's export-oriented manufacturers are under siege. Figures announced on December 10th showed that exports fell by a startling 2.2% in November, compared with a year earlier. Analysts had expected an increase of around 15%; it was the first fall in exports for seven years. The news followed a government survey, released on December 1st, that showed a precipitous decline in the fortunes of export manufacturers, confirming lots of anecdotal evidence. Every week brings fresh reports of factory closings, particularly in the industrial belt around the Pearl River delta in southern China. Unpaid workers have been staging violent protests. Diverting goods intended for export to the domestic market makes sense for factory owners, who want their firms to survive, and for local officials, who wish to maintain order.

There is, however, a problem. This scheme conflicts with government policy, which is to promote exports. China encourages the import of industrial commodities, such as oil, base metals and even quality fabrics and industrial machinery—provided goods made with them are sent abroad. Accordingly, a tax is imposed on imports, and is then mostly reimbursed when finished goods are exported. (Products brought into special zones devoted to manufacturing for markets abroad avoid the tax altogether.)

Reuters



At least some people are still shopping

As a result of pressure from China's trading partners, these tax rebates on exports had been contracting. But in November a new stimulus plan was announced that increased the rebates on more than 3,000 items. Evidently China's officials hope the country can once again export its way to higher growth, despite the financial troubles in its main markets.

Given that demand is more robust at home than abroad, the market is pushing in the opposite direction to the government. But circumventing official policy is difficult. Along with the loss of the rebate, say manufacturers, comes an increase in attention from public authorities that most companies prefer to

avoid. Some manufacturers therefore avoid the domestic market in China entirely; others run separate factories for domestic and foreign goods.

One solution is to route goods to the domestic market via Hong Kong, so that they qualify as exports, but this takes time and money and strikes many operators as a huge waste of both. China and Hong Kong are filled with small trading companies noted for their ability to handle these problems using one murky method or another. The sudden appearance of higher-quality goods suggests that officials are being less zealous than usual in enforcing the export rules, for fear of causing job losses.

Chinese consumers, for their part, must surely be pleased that they can buy better products at keen prices. A year ago, the boom was expected to be the means of breaking down the divide between China's domestic and export-led economies. But perhaps a bust is what was required.

Face value

Mr Detroit

Dec 11th 2008
From The Economist print edition

The survival of Rick Wagoner of General Motors hangs in the balance, like that of the industry he embodies

Bloomberg News



IN THE end neither Congress nor the outgoing Bush administration had the stomach to allow two of Detroit's Big Three carmakers to collapse into bankruptcy before Christmas. But getting the $15 billion-worth of loans which will keep General Motors (GM) and Chrysler going until March—Ford is, for now, carrying on under its own steam—has been a bruising, at times humiliating, experience for the bosses of the beleaguered firms, especially Rick Wagoner, the chairman and chief executive of GM. Not even the most trenchant critic could level much of the blame for Detroit's deep-seated ills on Chrysler's Bob Nardelli or Ford's Alan Mulally, who have less than four years' experience of the car industry between them. Both were hired to bring fresh eyes and a new approach to dealing with the industry's woes. By contrast, 55-year-old Mr Wagoner has been at GM all his working life and is the very embodiment of the giant car company's culture, for both good and ill. As one congressional tormentor after another took aim at the industry for its past mistakes and questioned whether it had done anything to make it worth saving, it was the tall, courtly Mr Wagoner who was squarely in the crosshairs.

On the face of it, it is remarkable that Mr Wagoner is still in his job at all. During his eight-year watch, GM's share price has fallen from $75.75 to below $3 last month. In the past four years the firm has racked up losses of at least $75 billion. You could say that rather than running a carmaker, Mr Wagoner has been operating a giant value-destruction machine at full tilt. Yet even now, to the incredulity of many observers, he appears to be safe in his job. When Chris Dodd, the chairman of the Senate banking committee, suggested that Mr Wagoner might have to go as a condition of a bail-out, Steve Harris, a GM spokesman, responded that "GM employees, dealers, suppliers and the GM board of directors feel strongly that Rick is the right guy to lead GM through this incredibly difficult and challenging time." He was telling the truth.

What is the explanation? Partly it is that Mr Wagoner is an intelligent, conspicuously decent man whom people cannot help liking. Partly it is that his knowledge and experience of the industry is unrivalled. Partly it is that all those who still support him signed up to the same strategy and continue to believe that nobody could have done better under the circumstances.

Mr Wagoner started well. As chief financial officer and then chief operating officer in the 1990s he helped turn GM round after three terrible years when losses had topped $30 billion. By 2003, as a result of action taken by Mr Wagoner to cut costs, modernise outdated plants and improve quality, GM's market

share was increasing and it was making profits of $4 billion a year. But the progress proved unsustainable. Each year vast retiree health-care and pension obligations diverted billions of dollars from developing new models, and added $1,400 to the cost of every vehicle coming out of a GM plant compared with rival products built in non-union Asian and European "transplant" factories. Mr Wagoner had to concentrate on generating cash rather than on making great cars. Low-interest finance and lossmaking fleet sales kept production up, and the profits that could be made churning out huge pickup trucks and sport-utility vehicles skewed GM's model range away from more efficient passenger cars.

In recent weeks Mr Wagoner has been accused of abjectly failing to tackle GM's problems. But within GM and the car industry generally, there is recognition of what a rotten hand Mr Wagoner had to play, and how close he came to achieving at least some of his goals. The huge losses of recent years have been a reflection of one painful restructuring after another. Since Mr Wagoner took over in 2000, GM has cut its workforce by half to 97,000 and closed 12 factories in America. That was neither easy nor cheap—many jobs have been bought out, and some laid-off workers have been entitled to almost full pay under an agreement with the union negotiated more than 20 years ago.

Expensive though it was, the surgery had begun to work. According to independent surveys, many of GM's factories have closed the efficiency gap with the likes of Toyota. Under the guiding hand of the flamboyant Bob Lutz, brought in by Mr Wagoner in 2001 to oversee product development, GM is also now making some very good cars, among them the Chevrolet Malibu, the Cadillac CTS and the Buick Enclave. Last month the Opel Insignia was voted European car of the year. And in 2010 GM is due to launch its revolutionary Chevrolet Volt, an electric car with a "range extending" internal-combustion engine that promises to make the Toyota Prius look like yesterday's technology.

Send for Mr Nasty

A year ago, after a deal was negotiated with the United Auto Workers union to transfer health-care liabilities to a union-run fund and to reduce the pay and benefits of newly hired workers to rates similar to those at the transplants by 2010, Mr Wagoner's stock was high. There was a real sense of optimism that GM was at last on the home straight to being a viable business. The spike in the oil price and the credit crunch put paid to that, but Mr Wagoner was not alone in failing to see them coming.

Mr Wagoner is far from being the deadbeat portrayed by congressional grandstanders and ignorant commentators. But his courtesy and his aversion to confrontation left his beloved GM more vulnerable to this year's shocks than it might have been if a more ruthless operator had been in charge. Brought up in the consensual GM way, he recoiled from forcing a showdown with the union, or hacking back the sprawling dealer network, when both were urgently required. It is easy to see why nearly everyone with a connection to GM is hoping that Mr Wagoner will not be forced out or subjected to further indignities by having to report to a federally appointed "car tsar". But GM is now locked in a struggle for survival that it will not win unless it is led by someone much nastier than Mr Wagoner.

Iceland

Cracks in the crust

Dec 11th 2008 | REYKJAVIK
From The Economist print edition

Iceland's banking collapse is the biggest, relative to the size of an economy, that any country has ever suffered. There are lessons to be learnt beyond its shores

AP



ATOP a hill near Reykjavik's old harbour is a bronze statue of Ingolfur Arnarson, the first Nordic settler of inhospitable Iceland. It overlooks a bunker-like building: the central bank, headed by David Oddsson, a man who more than 1,100 years later has shown similar survival skills. Before chairing the central bank's board of governors, Mr Oddsson was prime minister for more than 13 years, a record, during which time Iceland became one of the richest countries in the world. For years he was Iceland's most popular politician, privatising most of the banking system with a Thatcherite zeal and floating the currency, the krona.

But the collapse of the krona and nationalisation of the country's three largest banks in early October, which forced the country to secure help from the IMF, have left Iceland's economic miracle and Mr Oddsson's reputation in tatters. For weeks, protesters have gathered in Reykjavik's main square each Saturday calling for his removal from office. On the chilly afternoon of December 1st a few hundred of them, shouting "David out, David out", gathered at the Arnarson statue and marched down the hill to the central bank. In the lobby, they were met by riot police, who eventually defused the situation.

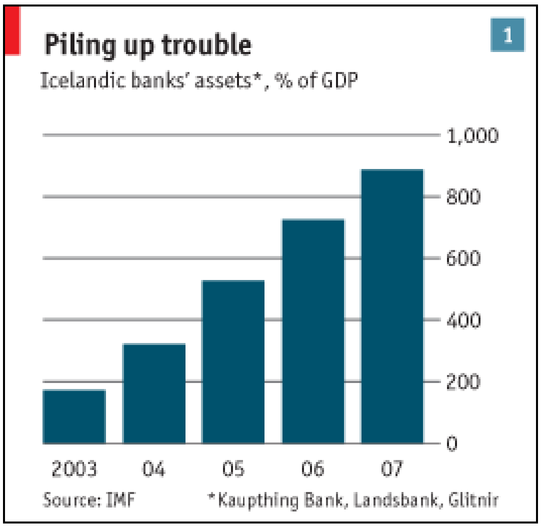
Such protests are almost unheard of: the only previous mass demonstrations to shake the country, against NATO membership, took place in 1949. But the economic crisis has exposed deep fissures in the nation of 300,000 people. In the same building the next day, Mr Oddsson barely smiles when he tells *The Economist*, "They say that the only way to get to paradise without dying is to be governor of a central bank. This has not been true in Iceland."

So far, such protests are the most tangible evidence of the troubles besetting Icelandic society. The landscape bears scars too. From the central bank, the view of snow-dusted Mount Esja across the estuary is blocked by a half-finished grey edifice, sprawled like a dead whale across the harbour-front. This was to have been Iceland's most spectacular building, crowning 15 years of economic growth: a concert hall facing out to the North Atlantic, covered in glass prisms imported from China meant to resemble glaciers and lava. But since the collapse of the bank that led the funding, construction has almost ground to a halt.

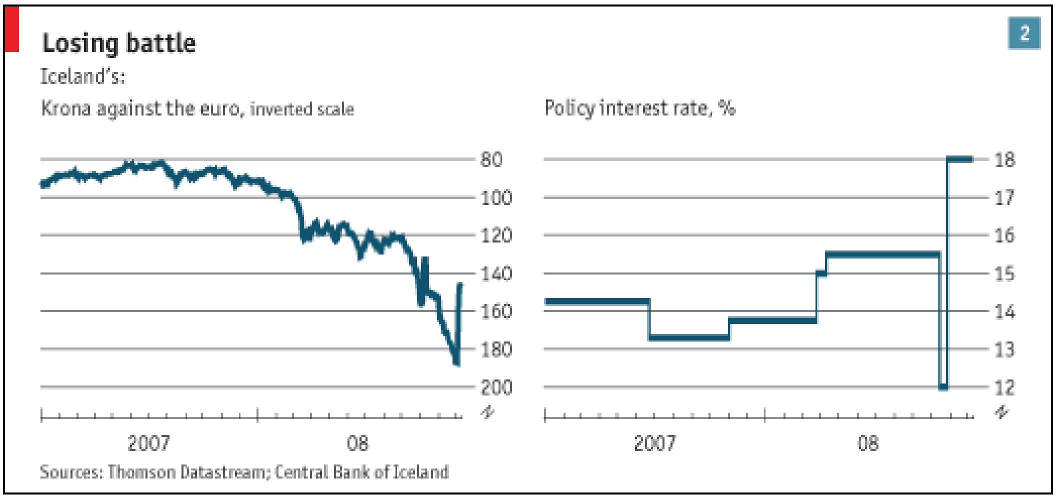
Likewise, blocks of half-built luxury flats stand half-finished along the waterfront. Instead of glass prisms, Icelanders are looking forward to a different Chinese cargo in the dying weeks of the year: fireworks. They set off more per person each new year than any other country in the world. Such is the demand that the Chinese manufacturers are making a special loan to Icelanders to buy them, according to a local newspaper.

Almost no other private creditor is lending them anything; Iceland has turned instead to the IMF. In November the fund agreed to a $2.1 billion two-year standby programme, which was supplemented by promises from Nordic countries and Poland, as well as Britain, the Netherlands and Germany. The package will be worth $10.2 billion in total—more than half of Iceland's GDP.

The IMF calls the collapse of the banks the biggest banking failure in history relative to the size of an economy. In 2007 Iceland's three main banks made loans equivalent to about nine times the size of the booming economy, up from about 200% of GDP after privatisation in 2003 (see chart 1). Only about one-fifth of those loans were in kronur; interest rates on these were punitively high. Ordinary citizens instead borrowed from their banks in cheaper currencies such as yen and Swiss francs to buy even the most modest homes and cars.



But after the banks collapsed in early October, the currency slumped and domestic interest rates rose sharply (see chart 2). Exchange controls imposed in the heat of the crisis have severely restricted access to hard currency. Initially, there were fears for the payments system. But after an initial panic, credit and debit cards appear to work normally again; Reykjavik's stores are filled with Christmas shoppers, and restaurants still serve up expensive delicacies such as grilled whale.



But people are mostly living on borrowed time as well as borrowed money. The IMF programme forecasts that the economy will contract by 9.6% next year. Many workers have been laid off but, thanks to Iceland's labour laws, they have three months' notice, so the impact is not yet being fully felt. Many young Icelanders, who have never known unemployment, are expected to lose their jobs as businesses shut down. Vilhjalmur Egilsson, head of the Confederation of Icelandic Employers, the main business organisation, says that "corporate Iceland is technically bankrupt" because of its foreign debts. It is unable to refinance loans because the new capital controls mean all credit to the country has dried up.

With unemployment rising, citizens talk openly about defaulting on their home and car loans (those flashy Range Rovers are now known dryly as "Game Overs"). Principal payments on local-currency mortgages are indexed to inflation, which is expected to be 20% this year. Because of this and their foreign-currency exposure, many households' debts have doubled in krona terms. Sirry Hjaltested, a pre-school teacher who joins in the Saturday protests, says that her grocery bills have gone up by half in a few months. She blames the country's reckless bankers for the ruin of the economy. "If I met a banker," she says, "I'd kick his ass so hard, my shoes would be stuck inside."

The scale of what confronts Ms Hjaltested and other Icelanders is only just becoming clear. According to the IMF, the failure of the banks may cost taxpayers more than 80% of GDP. Relative to the economy's size, that would be about 20 times what the Swedish government paid to rescue its banks in the early 1990s. It would be several times the cost of Japan's banking crisis a decade ago.

Abroad, there are also stark lessons from Iceland's woes. There may also be important consequences for cross-border banking regulation all over Europe. Iceland's tale exemplifies why central banks around the

world are spraying liquidity at the financial system to keep banks in business. When liquidity vanishes, banks quickly become insolvent. When that happens to foreign-currency loans and deposits, the central bank's abilities as lender of last resort are tested, and Iceland shows how quickly a small country with a thinly traded currency can fail that test.

Iceland was uniquely overextended, but other countries, too, have big banking industries relative to the size of their economies supported by lots of borrowing. Britain is one. Willem Buiter of the London School of Economics, who prepared a report on Iceland earlier this year that gave warning of the risk of disaster, asked in a recent, widely discussed blog whether London could be "Reykjavik-on-Thames".

A geyser under London

The balance-sheet of Britain's banking system, at 450% of GDP, was half the (relative) size of Iceland's at the end of last year. But that is still high. Like Iceland, Britain does not have a global reserve currency, such as the dollar or the euro, to draw on if it needs to act as lender of last resort. Its net foreign-exchange exposure is nil, but Iceland was in a similar position, and its banks have not been able to liquidate foreign assets to cover their foreign debts.

Mr Buiter acknowledges that Britain has access to currency swap lines from the world's biggest central banks, which would help it prevent a run on the banks. But he argues that the cost of this insurance will make London less competitive as a global financial centre. He thinks this makes a good case for Britain to adopt the euro. Among larger European countries, he says, the British government's exposure to its banking sector is by far the highest. "Switzerland, Denmark and Sweden are in a similar pickle," he adds.

Iceland found, to its peril, that its access to the leading currencies was not as sure as it had hoped. In fact, as troubles mounted, it succeeded only in securing swap lines worth €1.5 billion ($2.3 billion) from three Nordic central banks in May, hardly enough to prevent a run on its banks. The Federal Reserve, the European Central Bank (ECB) and the Bank of England all rejected Iceland's requests, stating, according to the Central Bank of Iceland, that the Icelandic financial system was too large relative to the size of the economy for plausible swap lines to be effective. They also wanted Iceland to talk to the IMF, which the authorities appear to have done only half-heartedly at first.

Why were the foreigners so tight-fisted? A big problem was the increasingly rickety business model of Iceland's two largest banks, Landsbanki and Kaupthing Bank. Because Iceland is so small, the banks could attract only paltry sums in domestic deposits, which made them overly reliant on international capital markets. But in 2006, in what one of their chief executives describes as a stroke of genius, they hit upon the idea of creating internet accounts to attract foreign deposits, using the cost savings from online banking to offer higher interest rates to savers. Their strategy was so successful that soon they were sucking deposits away from bricks-and-mortar banks across Europe.

Financial officials in several countries say it became clear early this year that these online banks might pose a systemic threat across the region. Landsbanki, for example, had used Iceland's membership of the European Economic Area (which gives countries access to the European single market without having to join the European Union) to develop its online banking presence. Under the EEA's "passport" system, it could set up bank branches abroad that were supervised from Reykjavik, notably its internet operations in Britain and the Netherlands, called Icesave.

But as Icesave grew, European authorities realised that Iceland's coffers were far too small to provide deposit insurance to savers, and that its central bank lacked reserves to act as a credible lender of last resort in the case of a run. The British authorities pressed Landsbanki to create a subsidiary in London that would be supervised by British banking authorities, as its compatriot, Kaupthing, had done. It never did. When Landsbanki collapsed in October, the country ended up owing $8.2 billion to foreign internet depositors of its banks, an amount almost half the size of Iceland's entire economy.

At the time, other big cross-border banks, such as Fortis, a Benelux bank, and Dexia, a Belgo-Dutch bank, were in deep trouble, and there were growing concerns among European officials that a country could be overwhelmed if it was home to a big international bank that failed. Landsbanki made this fear into reality. Partly as a result of the Iceland fiasco, the British government has written to the European Commission seeking urgent consideration of improvements to legislation of cross-border banking in the EEA, including better ways of protecting depositors in branches of foreign banks.

Forever in your debt

In Iceland there are still many misgivings about repaying the huge debts incurred, as there are about other aspects of the IMF programme. A report in *Morgunbladid*, a national newspaper, claimed that relative to Iceland's size, the debt to Icesave depositors is bigger than the reparations demanded of Germany by the Treaty of Versailles. Mr Egilsson of the employers' confederation has written to the IMF's local boss in Iceland urging him to scrap what he describes as ruinous capital controls.

In his unassuming whitewashed offices near the central bank, Geir Haarde, the prime minister, appears sympathetic to some of these concerns. "There is still a lot of legal argumentation saying we should not pay" the debt to Icesave depositors, he says, though he stresses that his government has agreed to reimburse them.

He suggests that the government also thought long and hard before turning to the IMF. Already the country is chafing under interest rates that were pushed up by six percentage points to 18% during talks with the fund. "The interest-rate policy is probably the most difficult part for Icelanders to accept and understand," he says. He hopes that rates will start to fall quite quickly early next year, but knows the IMF is concerned about a premature relaxation of monetary policy. "We will need to do it in a very careful way. [But] we have had high interest rates here for a long time and people are tired of them."

Bloomberg News



Oddsson loses his grip

The status of the nationalised banks is another sore point. After being seized by the government (Kaupthing was given an unhelpful shove into bankruptcy when the British government put its London subsidiary into administration), they have defaulted on their huge international liabilities. These have been placed into "old banks", while local-currency deposits and loans are in "new banks" that are meant to restore a semblance of normality to Iceland's financial system. However, even the new banks have written off about 50% of their loans, implying that they do not expect that portion to be repaid. With interest rates as high as they are, and principal payments indexed to inflation, Jon Jonsson, an Icelandic international banker, says the solvency of even the new banks remains in doubt.

Mr Haarde says one possible solution is to hand the banks over to their biggest foreign creditors. Talks are under way with some, such as Germany's Bayerische Landesbank, he says. (On December 1st the German bank announced huge job cuts and said it would receive about €30 billion of state support, partly because of its losses in Iceland. It is not keen to take over an Icelandic bank.)

The key to stabilising Iceland will be the currency, and here the responsibility falls most heavily on Mr Oddsson. In recent days the krona has shot up in value against the euro, partly because the central bank has eased the controls on inflows of foreign exchange. But capital outflows are still restricted and there are growing fears among business people that the capital controls will drive the last vestiges of foreign investment out of Iceland.

It is also clear, however, that lifting the controls too quickly may lead to huge capital flight. Mr Oddsson makes little attempt to conceal his disquiet over these matters. Capital controls are "not a line taken from the Bible," he says. "They were the recommendation of the IMF. It was the government's call and after it was done we supported it." That hardly amounts to a ringing endorsement.

The currency is also where the politics of the crisis are likely to prove most troublesome. It is not just left-wing agitators who blame Mr Oddsson for the crisis. (Ever the politician, he expresses sympathy, saying the protests "describe a huge disappointment of the people".) He has regularly tussled with members of the country's business elite and the large parts of the media that are owned by Baugur, Iceland's most prominent international firm. In an impassioned speech to Iceland's Chamber of Commerce last month, he urged the police to investigate the activities of bank executives. One Icelandic firm had debts of 1 trillion kronur ($5.3 billion) to the three big domestic banks, more than all the banks' equity combined, he said. "The Central Bank of Iceland should probably place dead last on the list of those in need of investigation," he declared.

The bankers, in turn, blame him for almost everything, especially the blundered rescue of Glitnir, the smallest of the three banks, in late September, which turned a private-banking crisis into a sovereign-debt one. He has been criticised for his handling of the overvaluation of the krona, which caused all manner of

unhealthy speculation. He is also accused of overlooking the inadequacy of the central bank's lender-of-last-resort facility.

An answer across the sea

Whatever the merits of these arguments, the blame game complicates a debate which some consider crucial to Iceland's attempts to escape from its crisis: a move towards adopting a hard currency, specifically the euro. The nationalistic Mr Oddsson, who has spent his working life in Reykjavik, is thought to be against this. (He dismisses the euro zone as a "Shangri-La".) Iceland's international business people, buoyed by the arguments of academics such as Mr Buiter, believe that the crisis has exposed the dangers of relying on a small, fragile currency.

It would not be an easy decision. Iceland has kept out of the EU, not least to safeguard its cod-fishing quotas. The ECB has made clear that Iceland cannot adopt the euro unless it joins the EU first, which might take years. Some academics suggest unilateral "euroisation", as Montenegro has done. This could be done with as little as €100m to replace notes in circulation, a fraction of Iceland's €3 billion of international reserves. But such a unilateral step runs the risk of antagonising the EU. And it might not stop capital flight.

The Independence Party, which Mr Oddsson long led, has brought forward its national convention to January to discuss these matters, but it is divided on the issue. With the krona on life support, cool heads will be needed to stop the debate splitting the country. Mr Jonsson, the banker, believes the euro question could be as significant, in its way, as Iceland's decision to adopt Christianity and throw out its pagan gods 1,000 years ago. If the krona finally goes the way of the pagans, there is a good chance that Mr Oddsson will go with it.

Investment banking

Wall Street's annus horribilis

Dec 11th 2008 | NEW YORK
From The Economist print edition

Next year will be little better than this one for investment bankers. Their long-term future is none too bright either

Illustration by S. Kambayashi

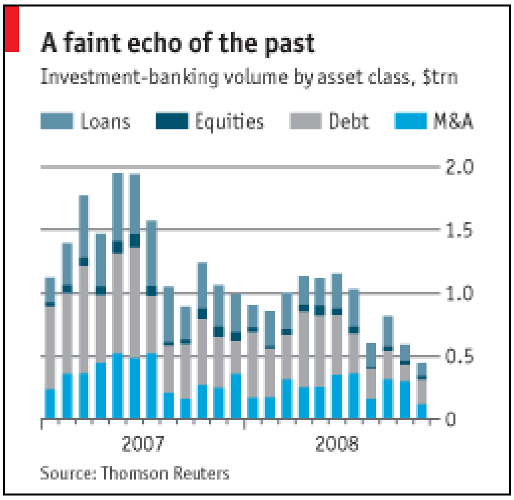


IT IS scant consolation to the thousands who have lost their jobs in finance, but the next generation wants to be better prepared. Some 200,000 students have signed up to play "Wall Street Survivor", an online stockmarket-simulation game.

Investment bankers are also focused on survival, but in the real world. Of Wall Street's five big securities firms, only Goldman Sachs and Morgan Stanley remain. After an infusion of government capital they have become banks and are now trying to work out how—even whether—they will make money again.

Since Lehman Brothers went bust three months ago, almost every asset class has been hammered. Even Goldman, once considered invincible, is likely to report a heavy fourth-quarter loss on December 16th. Underlining the depth of the malaise, Lehman is hawking its French investment-banking unit for a princely €1 ($1.30).

Many of those left on Wall Street are underemployed. In the worst global economic slowdown for a generation, capital-market activity has contracted sharply (see chart). The volume of initial public offerings has fallen by more than half since last year. Debt markets would be moribund, were it not for government-guaranteed issuance. The net revenues of the 12 firms in the Boston Consulting Group's investment-banking index tumbled to $6.2 billion in the third quarter, from $27.1 billion a year earlier. There is still money to be made trading currencies, interest-rate products, equity derivatives (popular when markets are volatile) and corporate restructuring. But this is relatively thin gruel compared with the recent past.



No wonder market greybeards, including Alan "Ace" Greenberg, a former boss of Bear Stearns, have been queuing up to pronounce the old Wall Street dead. But what will take its place? Morgan and Goldman appear to disagree about the answer.

Convinced that the era of big, highly geared bets is over, Morgan has shrunk its balance-sheet from $1.3 trillion to a shade over $750 billion. It expects to earn a return on equity of three to five percentage points

less as a result of lower leverage. Retail banking, once mocked as deathly dull at the white-shoe firm, will become its "fourth leg". Having come so close to failing, Morgan is going all out to win back clients who fled. It says most have returned.

This marks a stunning about-turn for John Mack, Morgan's chief executive, who must feel a bit like the Grand Old Duke of York. On returning to run the firm in 2005, after the ejection of the risk-averse Philip Purcell, he declared that it was under-leveraged and needed to push into mortgages, proprietary trading and private equity. These businesses are now being dramatically "reshaped", ie, shrunk.

Goldman, in contrast, seems determined to hold on to its risk-taking culture. Lloyd Blankfein, its chief executive, insisted recently that this year's trauma need not alter Goldman's "core", a key part of which is trading with its own capital. Unlike Morgan, Goldman is not rushing into high-street banking, though it plans to set up an internet bank to help gather deposits. Goldman believes it can continue to punt its own money as long as its risk management remains strong.

Mr Blankfein rejects the idea that lower leverage will reduce profits, arguing that other factors, such as market share, are more important. Goldman has not changed its goal of a 20% return on equity over the cycle. But Brad Hintz, of Alliance Bernstein, thinks the bank may have to make do with eight to nine percentage points less as bets with borrowed money become less acceptable. "Gravity affects everyone, even Goldman," he says.

Goldman could make up for some of this lost revenue in less capital-intensive businesses, such as asset management. There are fresh opportunities, too, such as distressed debt—a field in which Goldman excelled after the last bust. But it is more crowded this time.

Moreover, regulators and politicians are likely to impose restrictions. The investment banks' new overseer, the Federal Reserve, has so far imposed few extra shackles. Barack Obama's economic team understands the dangers of over-regulation. But members such as Paul Volcker, a former Fed chairman, want to see a balance struck between financial innovation and economic stability.

Congressional views are less nuanced. This week Morgan and Merrill Lynch, sensing the political winds, said their senior executives would forgo bonuses for 2008; John Thain, Merrill's boss, had asked for up to $10m after steering the bank to safety in a merger with Bank of America (BofA). Banks are also tightening "clawback" provisions, which require those whose trades cause subsequent losses to pay back all or part of their bonuses. This robs Wall Street of one of its biggest attractions. Traders may head for less well-known boutiques in order to avoid scrutiny.

Another turn-off is the legal trouble that the big firms will face next year. The wave of litigation over dodgy debt instruments is still swelling. In collateralised-debt obligations alone, Merrill and BofA face estimated settlement costs of up to $5 billion. Dealing with such cases can prove a huge distraction, as Citigroup discovered after the dotcom collapse.

There are a few grounds for optimism. The loss of Lehman and Bear, and the retrenchment of wannabes such as UBS, has cut out a lot of competition (though new rivals are emerging, such as Barclays Capital). And since they mark all their assets to market, Morgan and Goldman may have felt the worst of their pain. For commercial banks, by contrast, the deepening recession will bring more credit losses. Meanwhile, those that have bought investment banks are not all finding it easy to meld the cultures. "Let's wait until 2010 before declaring the universal-bank model victorious," says a Wall Street executive.

It is, indeed, hard to look ahead anywhere with much optimism. When business does come back it will be only at the level of five years ago, believes another senior investment banker. Revenue from credit derivatives will fall as they gravitate towards exchanges, eroding spreads for dealers. Large parts of structured finance are dead. America's government is working hard to revive markets for securitised debt, aware that banks lack the balance-sheet capacity to absorb all of those credit-card receivables and auto loans. But a return to past glories looks far-fetched.

The biggest fear on Wall Street is that finance, which accounted for a staggering 40% of corporate profits at the height of the credit bubble, faces decades of relative decline. The survivors will get the spoils, but the booty looks unappealing. It could be a long time before online-game developers start work on "Wall Street Thriver".

Credit cards

A nudge in the wrong direction

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From The Economist print edition

Minimum-payment requirements may be counterproductive

EVEN the best-intentioned policies can fall prey to the quirks of human behaviour, as a new study of credit-card repayment finds. In order to stop borrowers from being socked by an accumulation of unpaid interest whenever they fail to pay their bill, there are laws requiring credit-card companies to specify a minimum payment in each statement. But these may do more harm than good, suggests Neil Stewart, a psychologist at Warwick University.

Mr Stewart was studying a phenomenon known as "anchoring". Psychologists have found that being exposed to numbers, even irrelevant ones, can affect people's decisions. For example, diners tend to spend more in a restaurant named "Café 97" than in one named "Café 17". Since minimum payments on credit-card statements are usually small amounts, Mr Stewart wondered whether seeing an actual amount might make people pay less than they would otherwise have done. That is exactly what he found.

Mr Stewart presented 413 people with mock credit-card bills of £435.76 (about $650) that were identical—except that only half mentioned a minimum payment of £5.42. Participants were asked how much they would pay.

Among those inclined to pay the bill in full, the presence of the minimum payment hardly made any difference. However, those who wanted to pay just part of it handed over 43% less on average when presented with a minimum payment. In the real world, this would roughly double interest charges.

Economists will be interested in the results. Behavioural economists advocate "nudging" people in the right direction by subtly altering the choices that they are presented with. The insistence on minimum payments is a variation on this theme. Supposedly, those confronted by minimum-payment requirements should pay at least that much. In fact Mr Stewart's work suggests that people who would have paid a lot, paid less. In economics, as in life, nudging needs to be done carefully.

Bank regulation

Save yourselves

Dec 11th 2008
From The Economist print edition

National regulators are looking after number one

THE casualty list from the credit crisis does not stop at investment banks and Iceland. The idea of the international bank is also coming under pressure. The argument that being in lots of countries diversifies risk looks thinner now that the downturn has the world economy in its grip. A brace of regulatory initiatives also suggests that national authorities have become much more focused on their own interests.

The Swiss Federal Banking Commission has released details of its beefed-up capital regime, which will help to restrain growth in assets when times are good. The biggest Swiss banks, UBS and Credit Suisse, will be subject to higher risk-weighted capital requirements and to a new leverage ratio of at least 3%, which caps the amount of total assets that a bank can hold regardless of the risk they entail.

These measures are striking for at least two reasons. The first is that they foreshadow an emerging international orthodoxy. Last month the Basel committee, a group of bank supervisors, unveiled a new strategy that will evaluate the case for leverage ratios. It will also strengthen capital buffers in anticipation of periods of stress.

The second reason is that the leverage ratio will exclude the two banks' domestic lending activities from the calculation of capital. That makes perfect sense from a Swiss perspective: penalising banks for lending to local customers is the last thing national regulators want. But if domestic loans are widely privileged in this way, the attractions of foreign expansion will dip.

International banks will also be leafing nervously through a new consultation paper on liquidity issued by the Financial Services Authority (FSA), the British regulator. Banks will have to satisfy the FSA on their assessment of all manner of liquidity risks, from the "stickiness" of wholesale and retail funding to contingent exposures to off-balance-sheet activities. They will also have to hold significantly more liquid assets, such as highly rated government bonds. That will be helpful to government issuers but painful for the banks. The FSA estimates that the main British banks could lose a total of £1.3 billion-5.3 billion ($1.9 billion-7.8 billion) in revenue as a result of holding lower-return assets.

Foreigners are also under the cosh. The bankruptcy of Lehman Brothers in September, which left the bank's European arm instantly starved of cash, illustrated the dangers of subsidiaries relying on liquidity from head office. The FSA's new proposals presume that subsidiaries and branches of foreign banks will be self-sufficient in terms of liquidity, unless waivers are granted that allow the parent to provide money. Those waivers will be tougher to come by. The FSA will want to be reassured both that the foreign bank's home supervisor takes a robust approach to liquidity and that British creditors are not disadvantaged in the event of insolvency.

There are some specific reasons for individual countries to take different approaches. The Swiss face a particular problem of having two banks that are so big, for example. But regulators are also apparently becoming much more concerned about banks' domestic lending and much less inclined to trust other supervisors. If so, the multinational bank will suffer.

Buttonwood

Locked away

Dec 11th 2008
From The Economist print edition

The hedge-fund industry imprisons its clients and weakens its appeal

Illustration by S. Kambayashi



PICKING the name Fortress for an investment group was no doubt intended to give the impression of solidity. Investors are now discovering another unfortunate connotation: the hedge-fund firm has suspended redemptions and their money is trapped in its vaults.

It is not alone. Tudor Investment, Citadel, D.E. Shaw and Farallon Capital Management are among the other big hedge funds to have restricted the right of investors to withdraw their money.

These firms are among the aristocracy of the industry. Only a year ago, it was widely assumed that hedge funds would increasingly consolidate, with pension funds and endowments choosing to place their money with the market leaders. Some groups were also branching out into other activities, such as private equity and investment banking.

But the trend towards consolidation always faced a potential conflict. It has long been argued that younger funds perform better than those with lots of assets under management. A new study* in the *Financial Analysts Journal* bears this out.

The problem is that young, small funds do not stay svelte for long. Their success attracts new clients; at some stage, they grow beyond the optimal size for generating high returns. Some managers anticipate this problem and refuse to accept new inflows after a certain point. But the money can be irresistible. After all, the annual fee, say 2%, is predictable; the 20% performance fee, though more lucrative, is not. In fact, the one certainty is that the manager will eventually have a duff year when he earns no performance fee at all.

For a small hedge fund, the annual fee may not be enough to pay the bills. So it makes sense to make the group as big as possible before the inevitable bad year strikes. If the manager closes some funds to new money, he may well decide to start up others. Diversification makes as much sense for the manager as for the investor who spreads his capital between shares and government bonds.

The problem is that a fund manager who diversifies also risks his reputation. Even though all his funds are unlikely to perform badly in any given year (except perhaps a year like this), they will not all outperform either. Worse still, the process of building a big group may draw the original managers into areas like recruitment, marketing and administration, where their skills might not be as polished.

The breakneck growth of the hedge-fund industry from $39 billion of assets at the end of 1990 to $1.9 trillion at the end of last year indicates that the industry overreached itself. The amount of money under management exceeded the number of managers with genuine skill and the range of market anomalies that could be profitably exploited. Too many funds relied on leverage to ride the bull markets.

Clients have been duly disillusioned this year. The average fund lost 17.7% in the 11 months to the end of November, according to Hedge Fund Research, a consultancy. That may be better than equities but is hardly the "absolute return" the industry promised. And the losses that have been revealed may be understated; had investors been able to redeem all their holdings (forcing managers to sell more assets) things might have been a lot worse. Industry enthusiasts claimed hedge-fund returns were less volatile than their conventional, long-only peers. But the price was illiquidity; in other words, all the losses come in a big lump.

Not everyone has suffered, however. Systematic macro funds (which use computer models to bet on global markets) have returned a remarkable 16.8% this year. One fund that has survived and prospered in these difficult times is the aptly named Keynes fund, run by Sushil Wadhwani, which uses a combination of short-, medium- and long-term models to manage risk. The fund was up by 14.1% at the end of November; the leveraged version has returned 43.4%.

The ability of some hedge funds to make money, even in such horrendous circumstances, suggests the industry will survive, albeit in much altered form. It has already undergone several upheavals in its history, including the collapse of Long-Term Capital Management and the fall of the big macro funds in the 1990s.

In fact, the structure of the hedge-fund industry has been far less stable than that of conventional fund management. Perhaps that is because the much-maligned retail investors who back Fidelity or Vanguard are much more patient clients than the pension funds or super-rich who invest in hedge funds.

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* "Hedge-Fund Performance Persistence: A New Approach", By Nicole Boyson, Financial Analysts Journal, volume 64, number 6.

Endowments

Ivory-towering infernos

Dec 11th 2008 | NEW YORK
From The Economist print edition

America's universities have seen billions of dollars go up in smoke

HARVARD will have to take a "hard look at hiring, staffing levels and compensation", wrote Drew Faust, the university president, on December 2nd in a surprise letter to Harvard deans. The Harvard endowment, which was worth $36.9 billion at the end of June, has since lost at least 22%, says Ms Faust. The university should brace itself for losses of 30% in the fiscal year to next June, she adds, although even that may prove far too optimistic. Its ambitious plans for new buildings on the other side of the Charles river seem likely to be scaled back, or at least slowed down.

Harvard is not alone. At Stanford University, the president, provost and other senior executives have taken a 10% pay cut. There is speculation that its endowment, which at $17 billion in June was third only to Harvard's and Yale's, has performed horribly since then. Many smaller endowments—only six were bigger than the $8 billion that Harvard says it has lost so far—have suffered too. Williams College has seen its endowment plunge by 27%, from $1.8 billion to $1.3 billion, while Wesleyan University's has tumbled by 24% to $580m.

But all eyes are on Yale, the inventor of an investment strategy that in recent years has been imitated by many other universities and some charitable foundations. Richard Levin, Yale's long-serving president, is expected to make an announcement soon about the performance of its endowment and the implications for Yale's budget (its new campus alone is said to be costing around $1m a day to build). In the meantime there is much debate in faculty clubs and among charitable trustees about whether to persevere with the "Yale model". This is ironic, for it is at times like these—when most other investors are desperate for liquid assets—that the model is supposed to come into its own.

The creator of the Yale model is David Swensen, who was persuaded by James Tobin, a Nobel-prize winning economist, to become the university's chief investment officer in 1985, when the endowment stood at just over $1 billion, and increased it by June of this year to $22 billion. As Mr Swensen explains in his influential book, "Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment", which was published in 2000, the "permanent" endowments of universities (and of some charitable foundations) meant that they could be the ultimate long-term investors, able to ride out market downturns and liquidity droughts.

By investing heavily in illiquid assets, rather than the publicly traded shares and bonds preferred by shorter-term investors, an institution with an unlimited time horizon would earn a substantial illiquidity premium. By 2006, Yale was aiming to invest a staggering 69% of its endowment in illiquid alternative asset classes such as hedge funds, private equity, property and forests. Others followed. According to "Secrets of the Academy: The Drivers of University Endowment Success", a new study by Josh Lerner, Antoinette Schoar and Jialan Wang in the *Journal of Economic Perspectives*, Ivy League endowments increased their allocation to illiquid assets from 9.3% to 37.1% between 1993 and 2005. On average, universities raised their allocation from 1.1% to 8.1%.

Until this year, the strategy paid off handsomely. For the 1,300 endowments studied, the median annual real rate of return was 6.9% between 1993 and 2005, while the 20 best performers generated average real annual returns of more than 9%. That was better than most other institutional investors. Between 1996 and 2005, about 5% of university and college endowments did better than the top percentile of American corporate pension funds.

Until this year the main complaint about endowments was that they were performing too well. High returns were leading to such huge bonuses for endowment managers that less well-paid university staff protested. After two Harvard endowment managers each earned about $34m in 2003, the university agreed to cap future compensation at $25m. That may have contributed to the decision of Jack Meyer, who had enjoyed a long and successful run in charge of the endowment, to leave in 2005. His successor, Mohamed El-Erian, left after barely a year, in which the endowment grew by 23%.

So what has gone wrong? The sort of carnage that has hit the markets this year must have been worse than anyone, including Mr Swensen, thought possible. Some endowments are believed to have failed to arrange credit lines to manage the risk of an extreme financial crunch. Others may have underestimated the downside risks of the Yale model, and used money they did not really have. Universities typically spend around 4.5-5% of the value of their endowments each year. Spending is usually based on averaging the value of the endowment over three years. This method may have led them to spend too much when times were good.

Poison ivy

The model may also have been adopted by endowments that were too small for it. “You need to be very big and very diversified, and to be sophisticated enough to understand the risk management of complex investments,” says Anthony Knerr, who advises universities on funding strategies. Some of the hardest hit may be smaller endowments that adopted a “Yale-lite” strategy that they did not really understand. They may also have been unable to invest in the best hedge funds and private-equity firms, which have (until now) been able to pick and choose between investors.

Even the biggest Ivy League endowments are finding their private-equity investments a source of worry. They suspect that the values put on their portfolios by private-equity firms may have to be cut sharply before the end of this fiscal year. Moreover, many private-equity firms are now demanding that endowments and other investors hand over the capital they promised during sunnier times, cash the universities would rather keep.

Harvard is rumoured to be trying to raise around $1.5 billion by selling some of its limited partnerships in private-equity firms, fuelling speculation that the university is facing a cash crunch. Some close to the fund say that it may instead be gearing up to buy assets. This should be just the time when long-term investors that can afford to be illiquid and have money to spend make a killing. If he has enough cash, Mr Swensen may even now be preparing to splash out on assets that will never again be so cheap. This may yet prove to be the Yale model’s finest hour.

Economics focus

A stimulating question

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Can emerging economies now afford counter-cyclical policies?

Illustration by Jac Depczyk



IN JUNE 2002 the World Bank staged a headline bout between two heavyweight economists. In one corner was the IMF's chief economist, Kenneth Rogoff; in the other, the IMF's chief critic, Joseph Stiglitz. The subject of their fight was the emerging-market crises of the 1990s. Mr Stiglitz accused the fund of fanning the flames by prescribing fiscal austerity and tight money. He, by contrast, advocated "counter-cyclical policies"—lower interest rates and undiminished public spending, which might offset a collapse in private demand.

The fund had meekly absorbed round after round of punishment from Mr Stiglitz. So it startled everyone when the IMF's chief economist came off the ropes to land some stinging criticisms of his own. He ridiculed what he called the Stiglitzian prescription: "You seem to believe that if a distressed government issues more currency, its citizens will suddenly think it more valuable. You seem to believe that when investors are no longer willing to hold a government's debt, all that needs to be done is to increase the supply and it will sell like hot cakes."

Six years later the emerging economies face another financial crisis. Some of them are again raising interest rates. But a surprising number are flirting with the Stiglitzian prescription: they are issuing more currency and selling more hot cakes. For example, the central bank of Thailand, which raised interest rates to more than 23% in 1997, lowered them this month by a percentage point, its biggest cut in eight years. Its neighbours in Indonesia, Malaysia and South Korea have also eased rates recently.

Emerging economies have also turned on the fiscal taps. Malaysia, South Korea and Russia have unveiled stimulus packages, all of them dwarfed by the splurge China announced last month. On December 6th India's central bank cut its key rates by a percentage point. The next day its government, which will run a budget deficit of over 8% of GDP in the year to March, nonetheless made room to cut excise duties and spend another $4 billion.

In rich countries, such counter-cyclical policies are the norm. But in emerging markets, policymakers have often found themselves amplifying business cycles. They would lower interest rates in good times, then raise them in bad. In times of plenty, they gorged themselves. In times of dearth, they fasted.

What explained this perverse policymaking? It is too easy to blame the IMF. Mr Rogoff, after all, had a point: counter-cyclical policies are tricky. Unlike America, where interest rates can plunge and the budget deficit soar without calamity, emerging markets have had to worry about investors losing confidence and their currencies collapsing.

Emerging economies struggle to fight business cycles partly because theirs are more pronounced. In the "typical" Latin American recession between 1970 and 1994, output fell by an average of 8%. In the OECD, it fell by 2%. The tax base is narrower in emerging markets and revenues more volatile. Latin American recessions can cost the exchequer 20% of its revenues, compared with 6% for the OECD as a whole.

Paying for the sins of the past

This lack of fiscal muscle makes creditors wary of buying emerging-market bonds during bad times. This, in turn, prevents governments from borrowing to smooth the cycle, as their rich counterparts can afford to do.

If governments cannot borrow freely in bad times, the only response is to save more in good times. Several emerging markets face this slowdown from a position of unaccustomed fiscal strength. Chile is a shining example. It accumulated a budget surplus of 8.8% of GDP last year, thanks to soaring revenues from its copper mines. This abstemiousness has served it well as the commodity cycle has turned.

In setting its interest rates, the Federal Reserve worries about growth and inflation. It does not concern itself unduly with the dollar. Policymakers in emerging economies, by contrast, cannot afford that luxury. In countries prone to high inflation, a stable exchange rate helps to anchor prices. Such economies have also usually borrowed in dollars or euros, because their creditors insist on being repaid in hard currency. A precipitous fall in the currency can make these debts insupportable.

For these reasons, emerging economies must often raise interest rates in the teeth of a slowdown in an effort to defend their currencies. This "procyclical" monetary policy damages the economy, inflicting losses on banks and their clients. But it may be the lesser of two evils. Rich countries can afford to treat their currencies with benign neglect. Emerging economies cannot.

The "fear of floating" is, however, abating. A growing number of emerging economies have sought to earn their own spurs as inflation-fighters, rather than importing the credibility of the Federal Reserve or the European Central Bank. Thirteen emerging markets now target inflation, allowing the exchange rate to float more cleanly. Brazil and Chile have let their currencies plunge without raising rates.

Prudent emerging economies have taken advantage of a growing acceptance of their currencies. Brazil's government has retired or exchanged $80 billion of debt indexed to other people's money. A 10% fall in the real now lightens its debt burden, lowering the ratio of net debt to GDP by 1.3 percentage points. Some countries have also accumulated arsenals of foreign-exchange reserves and so worry less about their foreign debt.

Adding the fiscal efforts of China and other emerging economies to the stimulus planned in developed countries, the world economy will receive a fiscal boost of about 1.5% of global output next year, according to UBS. Even Mr Rogoff thinks America will need a fiscal expansion of $500 billion-600 billion in each of the next two years. In this fight, he and Mr Stiglitz are in the same corner. Hot cakes, anyone?

Vehicle-safety systems

Stopping in a hurry

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Cars are getting better at avoiding collisions. Before long they may be communicating with each other to make roads safer

Illustration by David Simonds



VOLVO'S new XC60 sport-utility vehicle comes, as you might expect of the safety-conscious Swedish carmaker, with a number of features designed to look after its occupants in the event of a collision. It has airbags, rollover and side-impact protection and so forth. But it is also fitted with mechanisms to help avoid a crash in the first place, including an automated braking system. As more cars acquire features that can assist a driver in a dangerous situation, or even take control, the rules of the road may need rethinking.

The Volvo system, called City Safety, operates at up to 30kph (19mph). This speed range was chosen because it is when most collisions take place, especially rear-end shunts in slow-moving traffic. City Safety uses a laser sensor fitted behind the windscreen to scan the road ahead, calculating relative speeds and distances. It applies the brakes if a collision cannot be avoided. (The system switches off at very low speeds, so that drivers can park close to other vehicles.)

A number of carmakers already have or are introducing automated-braking systems. Germany's Daimler uses a radar-based one in some of its Mercedes-Benz vehicles. Called Distronic, it also operates at high speed and adjusts both braking and acceleration to maintain a constant distance from other cars. If a collision seems likely a warning is given. When the driver puts his foot on the brake pedal the system automatically applies the optimum pressure required to avoid hitting the car in front. If the driver fails to respond, the brakes come on automatically.

Staying on the road

These so-called "intelligent" vehicle-safety systems have the potential to make roads a lot safer, according to a new study by VTT Technical Research Centre, a big contract-research organisation based in Finland. It reckons the most promising is electronic stability-control, which can improve a car's handling by detecting and helping to prevent a skid. The centre calculates that if this system alone were fitted to all the vehicles in Europe it would reduce the number of people killed on the roads there by almost 17%. Devices designed to prevent a driver straying from a motorway lane would reduce deaths by about 15%. Those warning drivers about speed limits and other hazards would cut fatalities by 13%. Some of these systems may be combined; the forward-facing camera that monitors road markings for the lane-departure system

in the new BMW 7 Series, for instance, is also capable of recognising speed signs and displaying the limit on the dashboard.

Eventually these safety systems will make their way from expensive cars to most models, just as anti-lock brakes have. This will make cars much more "aware" of their surroundings. Even smarter stuff is coming. Jan Ivarsson, head of safety at Volvo, believes it should be possible to build a car in which people will not be killed or injured. The company is experimenting with devices that would automatically steer away from an oncoming vehicle. Such a car would also spot a pedestrian stepping into the road and brake.

In 2009 Daimler will introduce a device that warns drivers of fatigue. It uses multiple sensors to set up a profile of the way someone drives and sounds the alarm if he departs from it. In particular, it monitors steering behaviour—which, when it becomes a bit erratic, is a good indicator of tiredness. Daimler is also working on ways to make cars brake at red traffic lights.

Many of these safety systems at first give warning of impending danger before taking over. Despite that potential delay they still provide what Rodolfo Schöneburg, Daimler's head of passive safety, has described as an "electronic crumple zone": applying the brakes a bit late rather than not at all will at least reduce the impact of a collision.

Yet sometimes there is no room for any delay in avoiding an accident, for instance when a vehicle jumps a stop sign at a busy junction. This means safety systems will need to become even more autonomous in order to act faster—faster, probably, than people can. But because cars will be acting independently of each other, this raises safety concerns of its own.

Researchers worry, for example, about what might happen if a child ran into a busy road. If one car automatically slammed on its brakes and swerved, it could prompt others to take evasive action. The result of all these automatic, independent decisions could be a pile-up causing more deaths, injuries and damage than there would have been had drivers remained in charge. So some researchers are now looking at ways in which vehicles could co-ordinate their crash-avoidance manoeuvres. This means that in an emergency cars would have to tell each other at once what they were about to do, says Thomas Batz of the Fraunhofer Institute for Information and Data Processing in Karlsruhe, Germany.

His work is part of a broader project on "cognitive automobiles" involving other groups, including the University of Karlsruhe and the Technical University in Munich. Last year some of the researchers entered the Urban Challenge, an event organised by the American government's Defense Advanced Research Projects Agency (DARPA) to produce vehicles capable of operating autonomously in a city. DARPA wants to use such technology to produce robotic vehicles for military convoys in areas of conflict.

Taking charge

Mr Batz and his colleagues are devising software that can gather information from vehicles' sensors and use it to co-ordinate group behaviour in an emergency. Although the project is still at the simulator stage, it has already shown that one car in a group driving along a road will have to be nominated as co-ordinator. This shortens the lines of command for split-second decisions. The group co-ordinator could, for instance, order two vehicles travelling in adjacent lanes to swerve in the same direction and another to brake sharply or even run off the road if no obstructions or pedestrians were detected. The system would also have to cope with the presence of cars with no autonomous functions.

Carmakers are thinking about such things too. Daimler, for instance, believes that if details like the weight of vehicles and their rigidity could be communicated in the instant before a crash, then protection systems, like pre-tensioning seat belts, could adjust optimally in anticipation. Volvo's engineers envision cars being able to warn each other of hazards such as slippery roads. Some GPS units already tip each other off about traffic jams.

Collaborative anti-collision systems will encounter not only engineering problems, but perhaps legal ones too: whose insurer pays when one vehicle instructs another to take emergency action, causing it to bump into a third? And no one is yet sure what the effect will be if semi-autonomous systems relieve the driving load to such an extent that motorists become less alert—a problem which airline pilots face in computerised cockpits.

The answer, eventually, may be to let computers take over completely and drive cars robotically. An S-Class Mercedes with all the extras can already be left largely alone to make its way along a moderately

busy and fairly straight *Autobahn*. The experience of the DARPA challenge has shown that dealing with road junctions and traffic queues in cities is becoming possible too, especially with advances in machine vision. Bit by bit, the day is coming when it will be possible to jump into an empty car and say: “Home, James.”

Malaria and Alzheimer's disease

A jab of hope

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Vaccines may help defeat both a scourge of the poor and a rich-world affliction

FOR much of the 19th century, Bagamoyo was a dreadful place, at the heart of the east African slave trade. The very name of the Tanzanian port means "lay down your heart" in Swahili. But that tragic association may be supplanted by a happier one, thanks to an important new study done in the city that shows how to tackle a killer that has long outlasted Bagamoyo's trade in human beings.

Most malaria experts have pinned their hopes of tackling that disease with new drugs, such as artemisinin-combination therapies, and the use of bed-nets impregnated with long-lasting insecticides. However, the Bagamoyo study suggests that vaccination deserves a serious look. By coincidence, an unrelated report suggests that vaccines may also have an important part to play in tackling Alzheimer's disease, which tends to afflict longer-lived people in richer countries.

Joe Cohen of GlaxoSmithKline, a British drugs giant, and his colleagues present their case for the speedy development of a malaria vaccine in this week's *New England Journal of Medicine*. In earlier studies, researchers have shown that RTS,S (as the vaccine is known) showed promise, although doubts remained. Christian Loucq of the PATH Malaria Vaccine Initiative, a charity that co-sponsored the study, says some naysayers have pointed to historical difficulties in getting African governments to accept and distribute new vaccines as grounds for scepticism.

Which is why the work in Bagamoyo tested whether the malaria vaccine could be integrated into African countries' existing system for inoculating infants with a group of established vaccines. It showed that giving all the jabs simultaneously did not affect the safety or efficacy of any of the vaccines and that the malaria vaccine reduced the risk of infection by over 60%.

Dr Cohen points to novel adjuvants (ingredients that increase the body's response to vaccines) as one of the reasons why the vaccine works when many earlier versions failed. A second study in the same journal was conducted in both Tanzania and Kenya, and it shows the vaccine is indeed improved by using a better adjuvant. The researchers are keen to push ahead with this improved version of RTS,S early next year, but Dr Loucq worries about funding a big final-stage clinical trial that may cost $500m or more.

Funding also worries Ruth Itzhaki of the University of Manchester. She is the lead author of a striking paper in the latest issue of the *Journal of Pathology*. It suggests that the herpes simplex virus, which leads to cold sores, may be important in the development of Alzheimer's. One of the telltale signs of this disease is the deposit of beta-amyloid plaques in the brain. Using sophisticated scanning techniques, her team has located DNA of this herpes virus specifically within the amyloid plaques in the brain.

Could this be mere coincidence rather than causation? No, insists Dr Itzhaki. Earlier work done by her team has shown that, in mice at least, the herpes infection of nerve cells induces accumulation of beta amyloid, the main component of amyloid plaques. Alzheimer's has many causes, but Dr Itzhaki estimates that genetics and this virus taken together may account for up to 60% of the explanation.

If she is right, this costly and devastating disease could be tackled at last. Until a proper vaccine is developed, patients could use inexpensive antiviral drugs to contain the problem. More work would verify her thesis, but the team has been unable to get the funding for the necessary further research that will be needed to underpin future clinical trials. Why not? "There is very strong polarisation among scientists over our findings," says Dr Itzhaki. Perhaps it is worth spending some money to settle this disagreement.

Fertility drugs and cancer

Conceivable risk

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Taking fertility drugs may increase women's risk of cancer

DRUGS designed to coax ovaries to produce at least the requisite one egg a month have been a cause of concern for some time. At first worries centred on the possibility of increased risk of ovarian cancer. Then came concern about breast cancer. But studies have produced mixed results, leaving women and doctors in a bit of a quandary.

Part of the problem is that cancer can take decades to appear, so only a lengthy follow-up will expose an increase in its incidence. It is also well known that women who never give birth are at greater risk of various cancers; studies had trouble untangling that effect from any connection to fertility drugs.

To get around these difficulties, Ronit Calderon-Margalit of Hadassah-Hebrew University in Jerusalem took advantage of two large sources of data. One was a long questionnaire given to almost every woman who gave birth in West Jerusalem between 1974 and 1976. Some 15,000 answered, giving details about such things as how long it had taken them to conceive, whether they had taken fertility drugs and if so, what kind, along with various basic information. The other data came from Israel's cancer registry. All cancers are reported and linked to national identity numbers, which allowed Dr Calderon-Margalit to discover which of the 15,000 mothers went on to develop the disease.

As she reports in the *American Journal of Epidemiology*, among those who used ovulation-inducing drugs the risk of developing uterine cancer was three times that of untreated women. Among women who had taken over a year to conceive—possibly a proxy for longer use of the drugs—the risk increased eightfold. Even so, the overall risk of uterine cancer is small because it is relatively rare.

One drug in particular, clomiphene, stood out in its link to uterine cancer. The drug is still widely used as a first-line treatment for anovulation and unexplained infertility, even though a 2008 study raised serious questions about whether it does much about the latter.

Dr Calderon-Margalit's study also found increases in other cancers—notably, of the breast but not the ovary—for fertility drugs, although the findings were not as clear-cut. But at least where uterine cancer is concerned, she says, follow-up studies and screening should be considered for women taking such drugs.

Animal reproduction

Riskier but worth it when older

Dec 11th 2008
From The Economist print edition

A rare antelope changes its sex strategy as it gets older

THOUGH youth is supposedly the time of life to take foolish risks, it in fact makes more sense to save such things for old age. Young animals should be cautious, to stay alive long enough to reproduce. Old ones should be willing to gamble with their lives since there is not much time left anyway. Although this theory of age and risk makes sense (the risks young animals take are mostly connected with attracting and retaining mates, and are thus worthwhile), proof has been elusive. It requires following a population over the course of several generations. But a study of appropriate proportions has now been done, and it suggests that in one species at least, old age does indeed increase risk-taking.

The study in question was of Nile lechwe, an endangered antelope. The animals were held in an enclosure of 36 hectares (90 acres) at the San Diego Zoo's Wild Animal Park near Escondido. The site contains ten other species of African ungulate as well as a variety of African birds. The project has resulted in the birth of 176 lechwe calves over the course of 38 years and, since this has happened under the watchful gaze of the zoo's researchers, a lot of details about these young animals and their mothers have been recorded.

When Fred Bercovitch, one of the zoo's researchers, and his colleagues analysed these data, they discovered an intriguing trend. As they report in the *Journal of Mammalogy*, they found that as the female lechwe got older, the sex and the birth weight of their young steadily shifted. Lechwe live for up to 12 years. Yearling first-time mothers had sons 57% of the time, but by the time those mothers were seven, this figure had changed to 67%.

The reason this is interesting is that a lechwe mother is three times as likely to die while giving birth to a son (or during the subsequent week) as when she bears a daughter. Why that should be is unclear. It may be connected with the fact that sons are heavier than daughters, and so are costlier to make and riskier to give birth to. The existing data, however, do not prove this.

What they do prove is that the reproductive risk to a female increases as she gets older, merely because she is more likely to give birth to a male. And that supports the theory of age and risk.

Bearing a son is risky in other ways than just the risk of it killing the mother. A male lechwe has a chance to become dominant and thus breed with many females. If he fails, he will have fought for breeding opportunities that never came. Sons are thus genetic gambles. Daughters, by contrast, are genetic insurance policies. Almost all adult females breed, so a mother will get at least some of her genes into the next generation by producing them.

How Nile lechwe mothers manage to adjust their birth sex ratio and shunt more resources into producing larger calves as they get older is not yet known. But in the evolutionary game of life, the strategy is giving them more bang for their bucks.

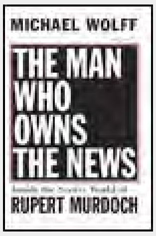
The media

Mouth of the South v the Dirty Digger

Dec 11th 2008
From The Economist print edition

Ted Turner and Rupert Murdoch both ruled media empires. One of them still does

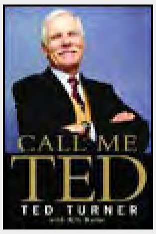
The Man Who Owns the News
By Michael Wolff



Broadway; 464 pages; $29.95

Buy it at
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Call Me Ted
By Ted Turner and Bill Burke



Grand Central Publishing; 448 pages; $30. Sphere; £20

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Eyevine



ONCE, during a public feud, Ted Turner challenged Rupert Murdoch to a boxing match in Las Vegas. Mr Murdoch did not respond directly, but instead his media empire took every opportunity to throw punches at Mr Turner. When the *New York Post* added a straitjacket to a photo under the headline, "Is Ted Turner Crazy?", he gave a speech saying he was considering shooting Mr Murdoch as "now that his own paper says I'm crazy, I can kill him and get off by reason of insanity!"

Messrs Turner and Murdoch, both now in their 70s, each built huge, successful empires by riding the dominant media trends of the past half century—globalisation and digitisation—more effectively than their peers. As these two highly entertaining new books make clear, behind the sometimes unappealing public personas that have earned Mr Turner the epithet "Mouth of the South" and Mr Murdoch "Dirty Digger", they have both succeeded by being visionary, iconoclastic agents of change.

Mr Turner's autobiography does a better job of illustrating these visionary qualities, which enabled him to transform a billboard advertising company based in the American South into a global media empire with brands such as CNN and the Cartoon Network. He has always had a keen eye for an opportunity, a determination to take big, risky decisions quickly (he penned a poem as a teenager against dithering), and an infectious exuberance that has inspired many who worked for him.

Mr Turner is surprisingly candid. He discusses his often bizarre personality which sometimes scuppered deals. On one occasion, during a conversation with Jeff Bewkes (who runs Time Warner, the firm that now owns Mr Turner's media empire), he suddenly curled up on the floor in the fetal position, shouting, "It's all too complicated."

He says that he has spent many years in psychotherapy, not least coming to terms with a childhood that included the slow, brain-damaged death of his sister, his parents' divorce and a hated time at boarding school. His father was severe, drunk and a womaniser (the thrice-married Mr Turner says he has finally managed to let go of his father's teaching that "real men run around"). Yet he was also an inspiration to young Ted, even after shooting himself at the height of his powers. Shortly before his death he had written, "Son, you be sure to set your goals so high you can't possibly accomplish them in one lifetime…I made the mistake of setting my goals too low and now I'm having a hard time coming up with new ones."

There is a remarkable lack of regret in Mr Turner's writing, or of defensiveness. In a series of "Ted stories" he gives the right of reply to some of the important people in his life, including his most recent ex, Jane Fonda. Many disagree with Mr Turner's account ("Ted's memory is different from mine"), notably when he explains that his worst business decision—to support Time Warner's disastrous merger with AOL, which ultimately ended his media career—had been supported by fellow tycoons.

Mr Turner's mantra seems to be to keep moving on. By contrast, Mr Murdoch comes across as a man possessed, driven by a somewhat irrational lifelong desire to be recognised as, in Michael Wolff's title, "The Man Who Owns the News". Mr Murdoch is reportedly happy with the picture of himself painted by Mr Wolff, who uses Mr Murdoch's successful campaign to acquire Dow Jones, the owner of the *Wall Street Journal*, to tell his life story.

Yet the arch Mr Wolff, who enjoyed extensive access to Mr Murdoch, his family and executives, still seems an odd choice of biographer. Mr Murdoch's News Corp comes across as a sort of darkly comic Camelot, in which, after their leader's second divorce, "several of his closest executives [out of loyalty] shortly followed suit and left their wives." In turn, Mr Murdoch's choices of executives are made on curious grounds, such as the "crush" he is said to have developed for Robert Thomson, who now edits the *Wall Street Journal*. When Wendi Deng, wife number three, first appears in the book, she speaks in a pantomime Chinese accent: "His whole family like this. They so cheap."

This is all pretty good fun. But there is little new insight into how Mr Murdoch has consistently created successful businesses over a wide range that stretches from the lucrative British tabloid, the *Sun*, to the Fox News network which has so discomfited post-Turner CNN, and from the satellite broadcasters, BSkyB and Sky Italia, to the acquisition of the online social-networking site, MySpace, which despite its growing army of detractors, continues to boom. Someone should write that story.

As well as continuing to covet the *New York Times*, Mr Murdoch has become increasingly liberal, says Mr Wolff. That has helped to reconcile him with Mr Turner, who asked him to lunch after he decided to reduce News Corp's carbon footprint. As Mr Turner says, "Who would have thought that after all these years an environmental gesture would give us the excuse to get together and bury the hatchet, but that's exactly what we did?" Yet, as Mr Murdoch tells Mr Wolff, though he and Ted are very similar, only he still has a media empire.

The Man Who Owns the News
Michael Wolff
Broadway; 464 pages; $29.95. The Bodley Head; £20

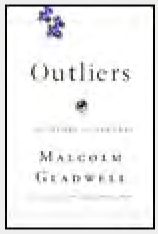
Call Me Ted
Ted Turner and Bill Burke
Grand Central Publishing; 448 pages; $30 Sphere, £20.

The road to success

How did I do that?

Dec 11th 2008
From The Economist print edition

Outliers: The Story of Success
By Malcolm Gladwell



Little, Brown; 320 pages; $27.99. Allen Lane; £16.99

Buy it at
Amazon.com
Amazon.co.uk

TWO earlier books by Malcolm Gladwell, "The Tipping Point" and "Blink", were more than just bestsellers: they became compulsory reading for the intellectually fashionable. Journalists and politicians, in particular, loved Mr Gladwell's concept of the tipping point, the moment when a trend flips into irreversible change, because it lends the power of apparent inevitability to almost any argument.

In his latest book, "Outliers", Mr Gladwell employs many of the techniques that made the other two so engaging. To illustrate a "big idea" that appears to challenge conventional thinking, he deploys a series of well-told anecdotes that combine seamlessly with popularised accounts of relevant academic research and case studies. This time the stories remain as intriguing as ever, but Mr Gladwell's "big idea" (or ideas, as there are actually two in this book) is unlikely to take even the least reflective reader by surprise. His main theme is that great success is hardly ever solely the result of extraordinary innate talent but of other factors, such as luck, accidents of timing, exceptional opportunity and an appetite for plain hard work. The other is that we are all of us, for better or worse, products of our cultural background.

He starts with the example of elite Canadian ice-hockey players, nearly all of whom, it turns out, were born in the first three months of the year. How can this be, he asks, when the selection process is supposed to be based on pure meritocracy? It turns out that it has nothing to do with astrological predetermination, and everything to do with the fact that each school year's eligibility cut off for hockey is January 1st. When they are very young, boys who were born near the beginning of the year tend to have a size and strength advantage over boys born later. Thus they are the ones who are picked to play in the better teams, get to play more matches and are exposed to the best coaching. By the time they are in their teens, they really are better players than those whose birthdays fell later in the year. The point of this story is that though natural ability is important other things matter more in determining success.

Similarly, Mr Gladwell finds when examining the careers of two of the men responsible for the computer revolution, Microsoft's Bill Gates and Sun's Bill Joy, that chance, timing and opportunities to practice had as much to do with their achievement as their undeniable brilliance. In Mr Gates's case, he had the good fortune to be sent to an expensive school that in 1968, when he was 13, could give him almost unlimited access to a time-sharing computer terminal, something nearly unheard of at the time. When the personal computer (invented, but never taken seriously, by IBM) came along a few years later, he had exactly the right combination of age and experience to spot its potential. The rest is history.

From the Beatles to a generation of high-flying New York corporate lawyers, Mr Gladwell finds that being in the right place at the right time, having the right antecedents (affluent, caring parents are a big help) and seizing the chance to get in lots of practice (he calls it the 10,000-hour rule) are all as critical to success as raw talent. He observes that you have to be smart, but only smart enough to succeed.

In the second half of the book, Mr Gladwell concentrates on the effects of cultural inheritance and how it helps and hinders. An interesting hypothesis is the effect of cultivating rice for many thousands of years on mathematical aptitude and attitudes to work. Growing rice requires farmers to make complex calculations and to labour every day of the year—unlike the less intense seasonal rhythms of European agriculture. Though the Chinese and Japanese don't have higher average IQs than Westerners, they are better at maths and have no tradition of taking long holidays.

The most uplifting chapter in the book is about a chain of publicly funded American schools called KIPP (Knowledge is Power Programme) that began operating in tough inner-city areas just over a decade ago. The KIPP schools, whose intake is largely made up of African-American and Hispanic children from single-

parent families are achieving extraordinary results, especially in maths, through the simple, but tough expedient of lengthening the school day by more than 50% and making attendance at a three-week summer school mandatory. Middle- and upper-class children with parents who are involved in their education get on fine in normal schools, but for children from deprived backgrounds, the extra hours in class are vital.

"Outliers" is less original than Mr Gladwell's other works, but it is a compelling read with an important message: by understanding better what makes people successful we should be able to produce more successful (and happy) people.

Outliers: The Story of Success.
By Malcolm Gladwell.
Little, Brown; 320 pages; $27.99. Allen Lane; £16.99

Dance

The man who wasn't there

Dec 11th 2008
From The Economist print edition

Fred Astaire
By Joseph Epstein



Yale University Press; 198 pages; $22 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

WHO was Fred Astaire? A dancer and singer, he starred in 32 Hollywood musicals along with other films, beginning during the Depression in the early 1930s and continuing until shortly before his death in 1987. Although the titles of many of those films are now forgotten, there are also a handful of works that can justly be called unforgettable, including "Swing Time", "Shall We Dance?" and his masterpiece, "Top Hat". In almost all of his most memorable works Astaire was partnered by Ginger Rogers, a lesser artist who by temperament and adaptive talent somehow managed to be both match and foil. None of the films was burdened with plot, dialogue or characterisation that could be called credible. What they did display was a dizzying record of what the choreographer George Balanchine called "the most interesting, the most inventive, the most elegant dancer of our times."

So that is who he was. Yet look a little harder and Astaire begins to disappear. Born Frederick Austerlitz in Omaha, Nebraska, in 1899, his background was painfully modest: his story reads like the plot of a Broadway musical about a simple provincial boy who makes it in a Broadway musical. There was a serially unsuccessful immigrant father ("a bit of a bust" is how Joseph Epstein describes him in this book), and a doggedly ambitious mother fixated on show business. It was a gruelling childhood and, later in life, Astaire would just say that he didn't want to talk about it.

Indeed, he never spoke publicly of anything that touched on the personal. He merely worked exceptionally hard until he became an outstandingly successful stage dancer and singer in partnership with his more colourful sister, Adele. When Adele retired into an aristocratic marriage, he moved to Hollywood, worked even harder, became a film star recognised and admired the world over…and that's all.

If anything dark lay hidden beneath this surface, Astaire kept it hidden. None of the turmoil that routinely attends film-star existence ever seemed to visit the Astaire household. In the diaries and memoirs and gossip columns of the period he may be glimpsed about town, at a Hollywood party or a première—but always fleetingly, always impeccably turned out and always going home early. This elusive, almost invisible quality was more than a mere habit. Self-effacement was the essence of his technique. He was an actor who needed to disappear into his art.

For one thing he looked a little odd. His face was too long. His jaw line was wide without being strong. Although he was prematurely bald he could never shake off a look of invincible innocence. He was also on the short side. Yet all of these disqualifications evaporated when Astaire danced. And that dancing was the result of what must have been the hardest, most relentless work schedule of any Hollywood film actor before or perhaps since. He devised and choreographed and rehearsed every last detail, time and time again, right down to the way he might draw his hand from his pocket.

This book from Yale University Press is not a biography but an account of Astaire's place in the firmament of great American popular artists. Mr Epstein understands his subject pretty well, knows the background and has plenty to say that is of interest—but it could all have been better said in a quarter of the space. The padding and repetition is a reminder that academic publishing meets popular culture at its peril.

Meanwhile Astaire the man continues to elude everyone. In imagination he seems perpetually to be dancing up one of those great curving ballroom staircases that feature so frequently in Hollywood musicals, the audience always hoping that he will stay a little longer. But as his very name suggests, he is the star who does not stay—like that other man upon the stair, the man who wasn't there.

Fred Astaire.
By Joseph Epstein.
Yale University Press; 198 pages; $22 and £14.99

The lives of whales

Tales from the deep

Dec 11th 2008
From The Economist print edition

SPERM whale mothers live into their 70s and suckle each of their young for up to 13 years. Grey whales undertake one of the longest migrations of any mammal on earth, travelling nearly 13,000 miles (21,000km) from Mexico to the Arctic and back again, covering 90 miles in every 24 hours. Right whales have one of the smallest brain-to-body-size ratios of any cetacean, the longest penis in the animal kingdom (averaging more than seven feet or 2.3m) and testes with a combined weight of one tonne.

Watching Giants: The Secret Lives of Whales
By Elin Kelsey



University of California Press; 201 pages; $24.95 and £14.95

Buy it at
Amazon.com
Amazon.co.uk

Facts such as these pepper “Watching Giants”, Elin Kelsey’s engaging portrayal of the lives and culture of whales. Focusing on the many species of whale that are found in the Gulf of California—Jacques Cousteau’s “aquarium of the world”—the author, an environmental consultant, splits her book into 20 bite-sized chapters. These range from meditative essays on the scale of whales’ lives through to hard scientific reporting.

Throughout she illuminates such diverse topics as the meaning of menopause in sperm whales (whales, like humans, are among the few species where females live decades beyond their reproductive years); the role of teenage killer whale “baby-sitters”; and the discovery that whale carcasses provide nutrition for over 400 species, including bone-eating zombie worms that feed on their fatty marrow. She describes how humpbacks build “nets” of bubbles to catch fish—a form of communal tool use; and how blue whales find dense patches of krill by listening to differences in the ambient noise of the ocean.

Many of Ms Kelsey’s insights depend on her contacts with scientists researching the lives of cetaceans. But studying whales has been likened to researching humans solely by watching them in their driveways. “What we know of whales”, writes Ms Kelsey, “we extrapolate from the tiny glimpses researchers get at the water surface, and even then, only by looking in the same old places.”

She is doubtful that man will ever fully understand whales which operate on a scale too large to be comprehended by human senses. But fascination with these magnificent creatures continues. Whale-watching is now one of the fastest growing segments of the world’s biggest industry, tourism.

Watching Giants: The Secret Lives of Whales.
By Elin Kelsey.
University of California Press; 201 pages; $24.95 and £14.95

Economist.com BOOKS & ARTS

Poetry

Glimpse into a poet's mind

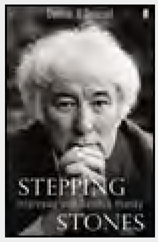
Dec 11th 2008
From The Economist print edition

BORN a Catholic in Unionist Ulster, this eloquent son of a taciturn cattle-dealer is one of the most celebrated poets of the post-war era. For all that, there is no biography of Seamus Heaney, and no edition of his collected poems. These interviews by Dennis O'Driscoll, an old friend, were carried out over many years mainly by post and must, for the time being, serve as biography and autobiography.

The book is both an account of the poet's life, which began in 1939 at Mossbawn Farm in County Derry, and an examination of his verse. Perhaps most of all it is a foray into the workings of a poet's mind, a "journey into the wideness of language", as he said in a speech accepting the Nobel prize. Poetry crept up on Mr Heaney in 1962, and never let go.

He is best known for the way in which he has mined his own life for the matter of his poems. What he writes about is solidly grounded in a sense of place; his language is rooted in the speech patterns of Ulster, with something of that Derry quality of "phonetic grunting". He recalls, lovingly, the old black leatherette sofa on which he and his siblings played; the magical dial of the radio; the horse which rubbed its flanks along the wall.

Stepping Stones: Interviews with Seamus Heaney
By Dennis O'Driscoll



Farrar, Straus and Giroux; 522 pages; $32. Faber and Faber; £22.50

Buy it at
Amazon.com
Amazon.co.uk

He has a strong purchase on earth-bound things, an enduring commitment to places that, as he says, "unlock the word-hoard". He speaks of what a poem does for its author, restoring something to the self. Good poems are not willed into being but come from things remembered with a certain aura. "It is a matter of waft rather than word-choice," he tells us, with a characteristically musical turn of phrase.

Poems can also be unpredictable and unbiddable creatures. They can arrive at all hours of the day or night, and woe unto to the poet who is not ready to receive them. The first line of a poem called "Bogland", for example, came to him as he was putting his right leg into his trousers, he recalls. But when a poem has come through, and has been tested to its limits by revision and repeated re-readings, it can seem as solid as an iron bar.

His engagement with the politics of Ulster in particular, and Ireland in general, has been marked by caution. There is too much point-scoring and too much fervour. A poem is a truth-telling place and not a killing field. And what, in short, would Mr Heaney say that poetry was good for in an age which reads so little of it? "Poetry", he tells us, "constitutes a boost to the capacity for discrimination and resistance."

Stepping Stones: Interviews with Seamus Heaney.
By Dennis O'Driscoll.
Farrar, Straus and Giroux; 522 pages; $32. Faber and Faber; £22.50

Tsarist splendour

The emperor's old clothes

Dec 11th 2008
From The Economist print edition

Gorgeous male finery from Russia on display in London

EVEN the socks are sumptuous. The white silk stockings Peter II wore to his coronation in 1728 are richly embroidered with shimmering silver-gilt thread. Two lustrous brocade dressing gowns also belonged to Peter, who was crowned emperor of Russia when he was 12 and was dead two years later. Just about everything in "Magnificence of the Tsars"—which concentrates on, but is not confined to, the coronation attire of Russia's emperors—is fabulous, including such accessories as a pocket-sized jewelled telescope and a diamond-encrusted gunpowder flask. The very first exhibit is particularly opulent: a costume made for Nicholas II to wear at a 1903 fancy-dress ball has deep cuffs heavy with fat pearls. Its sable-rimmed hat is decorated with spectacular 17th-century ruby, emerald and diamond jewels.

But the exhibition is more than a delectable tour of extravagant garments. Fashion, it quickly becomes clear, had a political job to do: the splendour of the togs was intended to convey the might and grandeur of the Russian empire. And to send more specific messages, too.

Beginning with Paul I in 1797, every emperor went to his coronation dressed in military uniform, underscoring his role as commander-in-chief. The cut of the garments was significant. Emperors wanting a westward-looking Russia adapted French modes; those who did not followed Slavic styles. Some sartorial messages may have missed their target. The cut of Nicholas II's fancy-dress outfit, for example, like that of his wife Alexandra (née Alice, granddaughter of Queen Victoria), was inspired by Russian peasant clothing. But if a gesture to the peasantry was intended, it was negated by the lavish materials used: 14 years later came revolution and Nicholas abdicated. A year later he was killed.

The artefacts on display survived the upheavals of 1917 because devoted caretakers, working in dreadful conditions, stashed them away. Most of what is now on view at London's Victoria & Albert Museum has not been seen in public since then (and will be returned to store in the Kremlin Armoury when the show ends).

It took conservators two and a half years to prepare the pieces for exhibition. Among their most difficult tasks was a battered pair of crimson velvet boots worn by a coronation herald in the early 18th century. As our photograph shows, the tops have flaps embroidered with the heads of rather anthropomorphic lions. Another taxing conservation job was preparing one of the simplest-looking items on view. This delicate, close-fitting, pale pink silk shirt, with small patches of its original deep salmon colour remaining, has ribbon ties at its shoulders which secure its detachable sleeves. Lined in white taffeta, it is interlined with wool. Such shirts, worn close to the body, were called *dushegreya* or soul warmers. Alas, wearing one did not prevent young Peter II from contracting the chill that contributed to his early death. Maybe it is the combination of the shirt's fragility and his own that makes it the most touching object in the show.

The Moscow Kremlin Museums



Hark the herald

Astonishingly there is nothing on view worn by Russia's first emperor, Peter I, known as "the Great". Svetlana Amelekhina, the curator of the Imperial Dress Collections in the Moscow Kremlin Museums (and of this exhibition) explains that this is because Peter I was crowned tsar when he was ten years old and did not have a second coronation when he was declared Emperor of All Russia 39 years later. His, therefore, was not the first imperial coronation. That honour went to his wife, Catherine I. Very well. But why isn't Catherine I's gown on view or, indeed, that of any other empress of Russia, among whom the most famous and influential was Catherine II, "the Great"? Ms Amelekhina may be being diplomatic when she says that the gowns were too fragile. More to the point, perhaps, is that they would take up a good deal of space which the exhibition lacks.

No dresses, but the show is not short on glamour. During imperial coronations a vast, ermine-trimmed mantle was placed over the tsar's military uniform. The one on view, from Nicholas II's crowning in 1896, is trimmed with the skins of almost 1,000 ermines. The cloth was then embellished with cut emeralds sewn onto fabric woven with silver thread. How it must have shimmered in the candlelight. It is said that on leaving the cathedral, when sun struck the mantle, it created the impression of a glowing halo—as if a divine blessing had created Russia's emperor.

"Magnificence of the Tsars: Ceremonial Men's Dress of the Russian Imperial Court, 1721-1917" is at the Victoria & Albert Museum, London, until March 29th

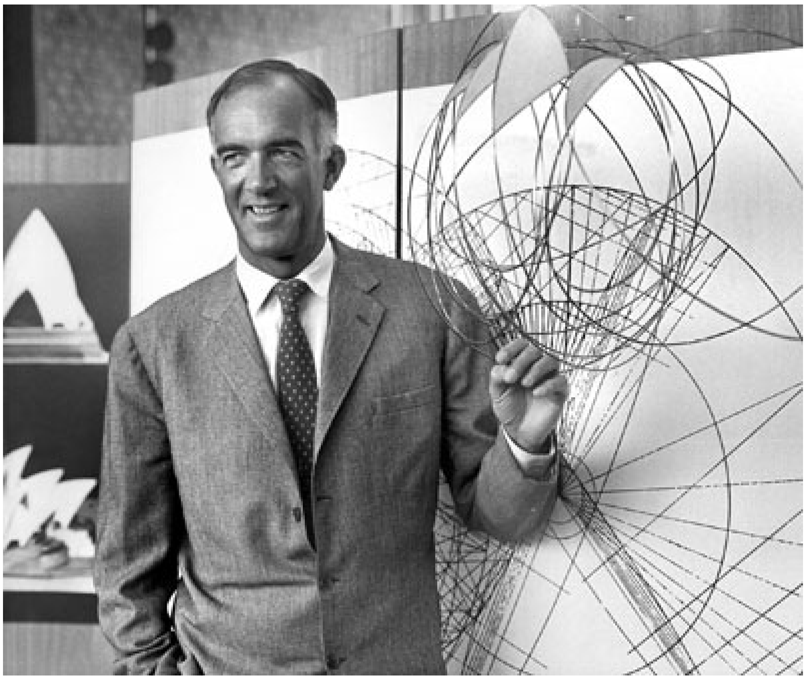
Economist.com PEOPLE OBITUARY

Jorn Utzon

Dec 11th 2008
From The Economist print edition

Jorn Utzon, architect of the Sydney Opera House, died on November 29th, aged 90

Reuters



DETAILED architectural plans were slow to emerge from Jorn Utzon. He liked to gather insights, textures, effects of the light, before he drew anything. The concept, he used to say, embodied everything the realisation needed. The Lutheran church he designed in Bagsvaerd, in his native Denmark, began as a study of drifting clouds and sunlight on a day at the beach. An art museum in Silkebourg emerged from salt poured out of a shaker on a café table. And his entry for the most important competition of his life was a series of sketches of triangles and random parabolas, free shapes bounded by "curves in space geometrically undefined". Along with the sketches came a cartoon self-portrait of a tall, thin, many-armed young man dipping a pen into his skull, which had sprung open like an inkpot.

His entry was thrown out at first, and not just for that. It broke several of the rules laid down for the competition to design a new opera house (in fact, two performance halls) on Bennelong Point, in Sydney. It was too big for the site; there was not enough seating; and, most notably, there was no estimate of cost. But Mr Utzon could not possibly cost it, because he had no idea whether it could ever be built. It was his dream-answer to the challenge of a "beautiful and demanding" site, one he couldn't resist; but, like the church at Bagsveard, it was inspired largely by clouds, boats and light. Mr Utzon had never been to Sydney. Instead, as a practised sailor, he had studied the local naval charts. When one of the judges plucked his entry out of the pile of also-rans, he was as astonished, and unprepared, as everyone else.

The year was 1957. He was 38, and had little other work to his name except a workers' estate, of yellow-brick houses grouped round courtyards, near Elsinore. What he wanted for Sydney was the effect he had noticed when tacking round the promontory at Elsinore, of the castle's piled-up turrets against the piled-up clouds and his own billowing white sails; the liberation he had felt on the great platforms of the Mayan temples in Mexico, of being lifted above the dark jungle into another world of light; the height and presence of Gothic cathedrals, whose ogival shape was to show in the cross-sections of the Sydney roof-shells; and the curved, three-dimensional rib-work of boat-building, as he had watched his own father doing it at Aalborg. The load-bearing beams of the Opera House shells he called *spidsgattere*, in homage to the sharp-sterned boats his father made.

Most of all Mr Utzon wanted a contrast between the massive base of the concert halls, made of aggregated granite and without windows, and the glass walls and soaring shells above. Everything

mechanical and functional was to be housed in the base, as in elemental rock. But the roofs were to be gleaming white, in deliberate contrast to the red-brown dark sprawl of Sydney, covered with ceramic tiles to catch and reflect the light, especially the fleeting colours of morning and evening. Outside, Mr Utzon wanted people to experience a feeling of uplift and detachment from the city; inside, he hoped they would be steeped in rich, restful colours, in preparation for the music or the drama to come.

Perfection and plywood

In fact, much of the drama came from himself. His aim was total control to achieve "perfection", nothing less. But he was dealing with the government of New South Wales, which was impatient and sceptical and needed to watch costs; with engineers, under Ove Arup, who reasonably thought that they should be in charge of the structural stages; and with builders who wanted timely and finished designs. The spat that proved the last straw was over moulded plywood, which Mr Utzon wanted to use structurally as well as for panelling. In 1966 he was "forced out", as he saw it, by the minister of public works, and left Australia. He never returned, not even for the opening in 1973; ten years late and, at more than A$100m, 1,400% over budget.

Sydney brought him fame, but few commissions. The Kuwaiti parliament building, also billowing and white, was his only other big international project. Though he was charming, elegant and an architect of genius, the difficulty of dealing with him and his dream-designs had got abroad. He won medals and the 2003 Pritzker prize, architecture's Nobel; "but if you like an architect's work", he said once, "you give him something to build."

Very late in life he was approached to become a consultant on the Opera House, and accepted. In truth, he had never stopped thinking about it. Mentally he was still patrolling the site, noting the course of storm-drains and the interplay of vaulting and walls. The multiple problems, as he had often said, were not his fault. They were created by the Sydney Opera House, which was there in his head, beautiful, demanding and continually evolving.

His greatest joy was to know that inside that building, up the steps from the main concourse, on the right, was a hall that in 2004 was named after him. It is a wide, low, bare space with huge easterly windows, floored in pale timber and with a ceiling of folded concrete beams that seem to hover lightly, bathed in reflections from the sea. The Utzon Room is exactly what he dreamed of; and it is also the only room yet built exactly to his plans.

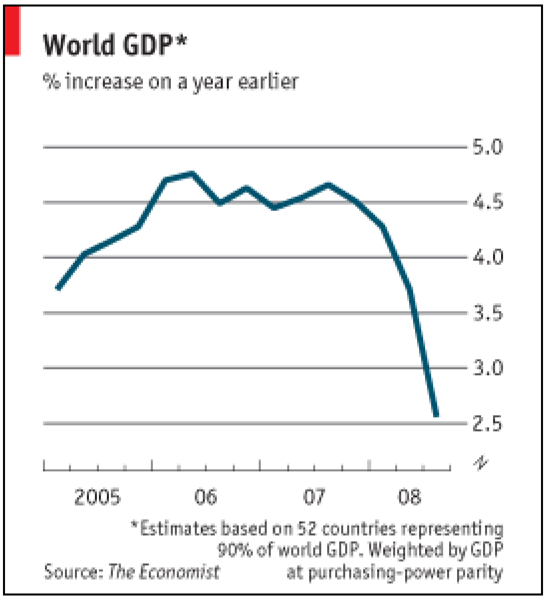
Overview

Dec 11th 2008
From The Economist print edition

China's exports fell by 2.2% in the 12 months to November and its imports plunged by 17.9%, raising the country's monthly trade surplus to a record $40.1 billion. The fall in exports was the first since 2001. The dismal trade figures are likely to increase pressure on the People's Bank of China to reduce interest rates further. The central bank has already cut rates four times since September.

America shed jobs at the fastest pace in 34 years in November, when 533,000 jobs were lost. The unemployment rate rose to 6.7%.

India announced a fiscal-stimulus package of 200 billion rupees ($4 billion) on December 7th. The previous day the Reserve Bank of India had cut its policy rate by a percentage point, to 6.5%. This was the third reduction in less than two months.



Output, prices and jobs

Dec 11th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+0.7 Q3	-0.5	+1.3	-1.0	-4.1 Oct	+3.7 Oct	+3.5	+4.1	6.7 Nov
Japan	-0.5 Q3	-1.8	+0.3	-0.9	-7.1 Oct	+1.7 Oct	+0.3	+1.6	3.7 Oct
China	+9.0 Q3	na	+9.6	+7.5	+8.2 Oct	+4.0 Oct	+6.5	+6.2	9.2 2007
Britain	+0.3 Q3	-2.0	+0.8	-1.4	-5.2 Oct	+4.5 Oct§	+2.1	+3.7	5.8 Sep††
Canada	+0.5 Q3	+1.3	+0.6	+0.1	-3.7 Sep	+2.6 Oct	+2.4	+2.7	6.3 Nov
Euro area	+0.7 Q3	-0.8	+0.9	-0.9	-2.4 Sep	+2.1 Nov	+3.1	+3.2	7.7 Oct
Austria	+1.5 Q3	+0.6	+1.6	-0.4	-0.5 Sep	+3.1 Oct	+2.8	+3.2	3.0 Oct
Belgium	+1.3 Q3	+0.4	+1.3	-0.4	+3.3 Sep	+3.1 Nov	+2.9	+4.5	10.5 Nov‡‡
France	+0.6 Q3	+0.6	+0.9	-0.7	-7.2 Oct	+2.7 Oct	+2.0	+3.0	8.2 Oct
Germany	+0.8 Q3	-2.1	+1.4	-1.0	-3.9 Oct	+1.4 Nov	+3.2	+2.6	7.5 Nov
Greece	+3.1 Q3	+2.0	+2.6	+1.4	-4.5 Oct	+2.9 Nov	+3.9	+4.4	7.1 Aug
Italy	-0.9 Q3	-2.1	-0.3	-1.1	-6.9 Oct	+2.7 Nov	+2.4	+3.4	6.8 Q2
Netherlands	+1.8 Q3	+0.1	+2.0	-0.4	-2.5 Oct	+2.3 Nov	+1.9	+2.5	3.8 Oct††
Spain	+0.9 Q3	-0.9	+1.3	-1.1	-11.2 Oct	+3.6 Oct	+3.6	+4.4	12.8 Oct
Czech Republic	+4.2 Q3	+3.8	+4.2	+3.0	+3.4 Sep	+4.4 Nov	+5.0	+6.6	5.3 Nov
Denmark	-1.2 Q3	-1.9	nil	-0.7	-5.1 Oct	+2.7 Nov	+2.5	+3.5	1.7 Oct
Hungary	+0.8 Q3	-0.3	+1.2	-1.5	-7.2 Oct	+4.2 Nov	+7.1	+6.3	7.7 Oct††
Norway	+0.6 Q3	-2.8	+1.8	-0.2	-0.9 Oct	+3.2 Nov	+1.5	+3.8	2.5 Sep***
Poland	+4.8 Q3	na	+5.1	+2.9	+0.2 Oct	+4.2 Oct	+3.0	+4.3	8.8 Oct‡‡
Russia	+6.2 Q3	na	+7.0	+3.7	+0.6 Oct	+13.8 Nov	+11.5	+14.1	6.1 Oct‡‡
Sweden	nil Q3	-0.4	+1.0	-0.1	-7.1 Oct	+2.5 Nov	+3.3	+3.7	6.2 Nov‡‡
Switzerland	+1.7 Q3	+0.1	+1.8	-0.2	+6.1 Q2	+1.5 Nov	+1.8	+2.5	2.7 Nov
Turkey	+1.9 Q2	na	+2.5	+1.5	-8.5 Oct	+10.8 Nov	+8.4	+10.6	9.0 Q3‡‡
Australia	+1.9 Q3	+0.3	+2.4	+1.1	+2.8 Q2	+5.0 Q3	+1.9	+4.4	4.4 Nov
Hong Kong	+1.7 Q3	-2.0	+3.8	+0.5	-4.2 Q2	+1.8 Oct	+3.2	+4.5	3.5 Oct††
India	+7.6 Q3	na	+6.2	+6.1	+4.8 Sep	+10.4 Oct	+5.5	+8.3	7.2 2007
Indonesia	+6.1 Q3	na	+6.1	+3.5	-0.9 Sep	+11.7 Nov	+5.6	+10.5	8.5 Feb
Malaysia	+4.7 Q3	na	+5.6	+3.2	-3.1 Oct	+7.6 Oct	+1.9	+5.8	3.5 Q2
Pakistan	+5.8 2008**	na	+6.0	+2.9	-6.8 Sep	+24.7 Nov	+8.7	+20.8	5.6 2007
Singapore	-0.6 Q3	-6.8	+2.0	-0.1	-12.6 Oct	+6.4 Oct	+3.6	+6.6	2.2 Q3
South Korea	+3.8 Q3	+2.1	+4.5	+1.6	-2.4 Oct	+4.5 Nov	+3.5	+5.0	3.3 Nov
Taiwan	-1.0 Q3	na	+4.0	+1.5	-12.5 Oct	+1.9 Nov	+4.8	+3.8	4.3 Oct
Thailand	+4.0 Q3	+2.3	+4.0	+1.9	+2.0 Oct	+2.2 Nov	+3.0	+5.8	1.2 Aug
Argentina	+7.8 Q2	+8.7	+6.2	+2.2	-1.5 Oct	+8.4 Oct	+8.4	+9.0	7.8 Q3‡‡
Brazil	+6.8 Q3	+7.4	+5.3	+2.4	+0.8 Oct	+6.4 Nov	+4.2	+5.8	7.5 Oct‡‡
Chile	+4.8 Q3	-0.2	+3.9	+1.0	-0.8 Oct	+8.9 Nov	+7.4	+8.9	7.5 Oct††‡‡
Colombia	+3.7 Q2	+2.8	+3.2	+2.0	-3.3 Sep	+7.7 Nov	+5.4	+7.1	10.1 Oct‡‡
Mexico	+1.6 Q3	+2.6	+1.9	+0.9	-1.9 Sep	+6.2 Nov	+3.9	+5.3	4.1 Oct‡‡
Venezuela	+4.6 Q3	na	+3.5	-3.0	-6.8 Aug	+32.7 Nov	+20.7	+31.2	7.2 Q3‡‡
Egypt	+6.8 Q2	na	+7.2	+4.9	+6.8 Q2	+20.3 Nov	+6.9	+18.2	8.4 Q2‡‡
Israel	+5.1 Q3	+2.3	+4.1	+2.5	+3.0 Sep	+5.5 Oct	+2.2	+4.7	5.9 Q3
Saudi Arabia	+3.5 2007	na	+6.1	+3.2	na	+10.4 Sep	+4.9	+8.5	na
South Africa	+2.9 Q3	+0.2	+3.5	+2.5	-1.6 Oct	+12.1 Oct	+7.9	+11.3	23.2 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	-3.5 Q3	na	-2.0	-2.5	-11.0 Oct	+8.0 Nov	+9.1	+10.5	4.2 Sep
Finland	+1.3 Q3	+0.4	+2.6	+1.1	+0.8 Oct	+4.4 Oct	+2.6	+4.2	6.0 Oct
Iceland	+5.0 Q2	+20.9	-0.5	-9.7	+0.4 2007	+17.1 Nov	+5.2	+13.8	1.9 Oct‡‡
Ireland	-0.8 Q2	-2.1	-2.5	-2.3	+4.0 Sep	+4.0 Oct	+4.8	+4.2	7.8 Nov
Latvia	-4.6 Q3	na	-0.4	-0.5	-9.0 Oct	+11.8 Nov	+13.7	+15.8	6.8 Sep
Lithuania	+3.1 Q3	+1.6	+4.4	+1.6	na	+9.1 Nov	+7.8	+11.0	4.6 Oct‡‡
Luxembourg	+2.8 Q2	+4.5	+2.5	+1.5	-0.7 Sep	+3.3 Oct	+2.9	+4.0	4.5 Oct‡‡
New Zealand	-0.3 Q2	-2.1	+0.3	+1.1	+2.4 Q2	+5.1 Q3	+1.8	+4.3	4.2 Q3
Peru	+9.9 Sep	na	+9.1	+5.5	+9.0 Sep	+6.7 Nov	+3.5	+5.7	7.3 Oct‡‡
Philippines	+4.6 Q3	+3.4	+4.2	+1.8	+6.5 Aug	+9.9 Nov	+3.2	+9.6	7.4 Q3‡‡
Portugal	+0.6 Q3	-0.5	+0.4	-0.8	-4.3 Sep	+2.3 Oct	+2.6	+2.9	7.7 Q3‡‡
Slovakia	+7.0 Q3	na	+6.8	+4.5	nil Oct	+4.9 Nov	+3.1	+4.7	7.5 Oct‡‡
Slovenia	+3.8 Q3	na	+4.2	+2.0	+5.6 Sep	+3.1 Nov	+5.7	+5.9	6.3 Sep‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions.- §RPI inflation rate 4.2% in Oct. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

The Economist commodity-price index

Dec 11th 2008
From The Economist print edition

The Economist commodity-price index

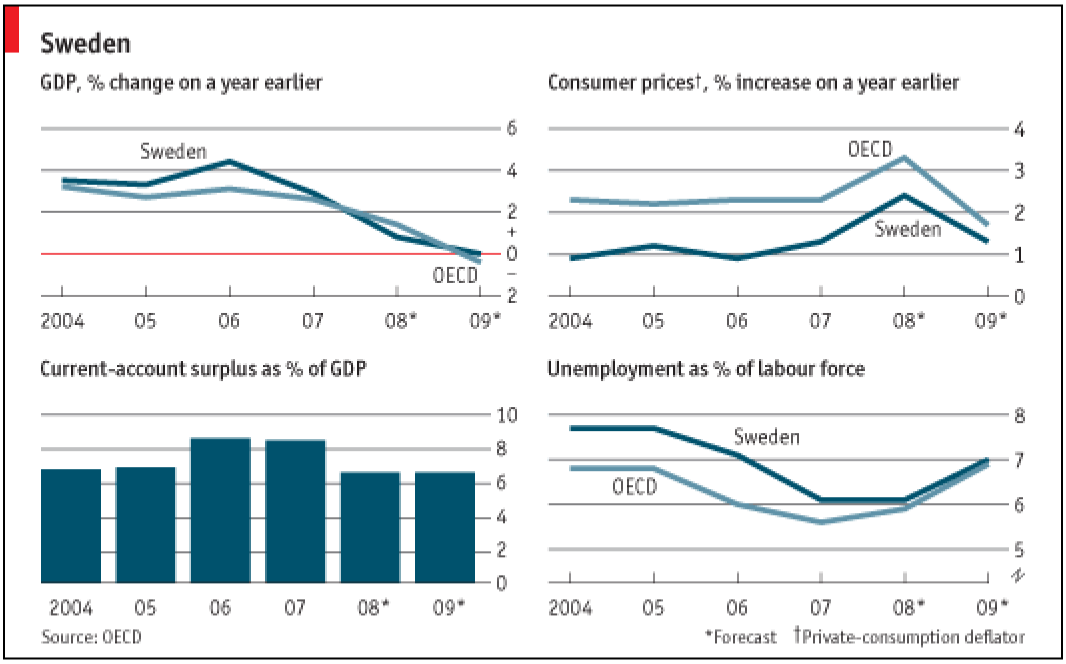
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	Dec 2nd	Dec 9th*	% change on one month	% change on one year
Dollar index				
All items	151.5	143.7	-16.5	-33.2
Food	169.6	164.9	-11.0	-21.8
Industrials				
All	128.2	116.3	-25.1	-47.4
Nfa†	111.7	103.1	-24.4	-41.6
Metals	137.3	123.6	-25.3	-49.7
Sterling index				
All items	153.9	147.3	-9.3	-8.0
Euro index				
All items	110.2	103.1	-16.0	-23.9
Gold				
$ per oz	779.30	768.80	+1.0	-4.9
West Texas Intermediate				
$ per barrel	47.64	42.15	-39.9	-52.8

*Provisional †Non-food agriculturals.

Sweden

Dec 11th 2008
From The Economist print edition



Trade, exchange rates, budget balances and interest rates

Dec 11th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Dec 10th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	-851.1 Sep	-699.0 Q2	-4.5	-	-	-3.2	0.50	2.68
Japan	+64.8 Sep	+176.5 Oct	+3.8	92.8	112	-3.3	0.80	1.42
China	+278.8 Nov	+371.8 2007	+10.5	6.86	7.38	0.2	2.52	3.03
Britain	-185.5 Sep	-82.9 Q2	-3.0	0.67	0.49	-4.9	3.08	3.78
Canada	+52.6 Sep	+19.2 Q3	+1.0	1.26	1.01	0.2	1.25	3.33
Euro area	-40.4 Sep	-51.4 Sep	-0.4	0.77	0.68	-1.4	3.38	3.18
Austria	+0.1 Sep	+14.5 Q2	+3.0	0.77	0.68	-1.0	3.38	3.98
Belgium	+10.2 Aug	-9.8 Jun	+0.7	0.77	0.68	-0.8	3.42	4.02
France	-82.7 Oct	-53.6 Sep	-1.7	0.77	0.68	-3.0	3.38	3.63
Germany	+283.3 Oct	+265.5 Oct	+6.6	0.77	0.68	0.3	3.38	3.19
Greece	-68.9 Oct	-52.5 Sep	-10.3	0.77	0.68	-3.2	3.38	4.88
Italy	-17.0 Sep	-70.8 Sep	-3.0	0.77	0.68	-2.6	3.38	4.32
Netherlands	+60.0 Sep	+62.5 Q2	+6.3	0.77	0.68	1.1	3.38	3.79
Spain	-153.9 Sep	-165.8 Sep	-10.0	0.77	0.68	-2.5	3.38	3.98
Czech Republic	+5.6 Oct	-5.0 Sep	-2.9	19.9	17.8	-1.9	4.02	4.14
Denmark	+6.4 Oct	+5.8 Oct	+1.1	5.74	5.08	3.9	6.75	3.68
Hungary	nil Oct	-8.8 Q2	-5.0	203	172	-3.4	10.52	9.30
Norway	+83.8 Oct	+86.5 Q3	+18.4	7.01	5.42	19.7	4.74	3.96
Poland	-22.0 Sep	-27.3 Sep	-5.6	3.05	2.43	-1.8	6.48	5.74
Russia	+194.6 Oct	+116.5 Q3	+6.0	27.9	24.5	5.8	13.00	9.50
Sweden	+18.6 Oct	+40.5 Q3	+7.6	8.12	6.42	2.4	2.60	2.82
Switzerland	+17.7 Oct	+60.2 Q2	+9.8	1.20	1.14	1.1	1.14	2.23
Turkey	-75.2 Oct	-47.1 Sep	-6.4	1.56	1.17	-1.6	NA	9.59‡
Australia	-9.0 Oct	-56.7 Q3	-5.5	1.51	1.13	0.3	4.58	4.47
Hong Kong	-27.2 Oct	+27.5 Q2	+10.3	7.75	7.80	-1.0	1.75	1.62
India	-109.6 Oct	-21.9 Q2	-3.6	49.0	39.4	-4.3	6.59	7.20
Indonesia	+13.5 Oct	+3.9 Q3	+0.4	10,913	9,301	-1.4	12.12	11.33‡
Malaysia	+42.0 Oct	+35.3 Q2	+12.8	3.62	3.32	-5.0	3.40	5.16‡
Pakistan	-22.4 Oct	-14.0 Q2	-6.2	78.7	61.3	-6.7	15.44	25.23‡
Singapore	+20.6 Oct	+29.2 Q3	+17.4	1.50	1.44	0.8	0.84	2.03
South Korea	-14.2 Nov	-8.3 Oct	-2.3	1,394	927	1.0	5.42	5.25
Taiwan	+3.9 Nov	+28.8 Q3	+5.8	33.4	32.4	-1.7	2.40	1.62
Thailand	+1.3 Oct	+2.6 Oct	-1.0	35.4	33.6	-1.4	3.85	2.73
Argentina	+14.2 Oct	+6.0 Q2	+2.7	3.42	3.14	0.7	18.44	na
Brazil	+26.1 Nov	-26.6 Oct	-1.8	2.43	1.76	-1.5	13.66	6.16‡
Chile	+11.2 Nov	-1.6 Q3	-2.6	666	498	5.9	8.28	3.87‡
Colombia	+2.3 Aug	-4.9 Q2	-2.4	2,305	2,003	-1.0	10.20	7.82‡
Mexico	-12.5 Oct	-11.8 Q3	-0.8	13.5	10.8	nil	8.04	8.40
Venezuela	+50.2 Q3	+49.4 Q3	+14.7	4.90	5.50§	-1.1	17.01	6.55‡
Egypt	-23.4 Q2	+0.9 Q2	+3.0	5.53	5.53	-6.5	11.70	6.40‡
Israel	-14.1 Oct	+3.5 Q2	+0.9	3.93	3.92	-0.8	2.65	4.22
Saudi Arabia	+150.8 2007	+95.0 2007	+29.1	3.75	3.75	11.6	3.45	na
South Africa	-9.5 Oct	-23.2 Q3	-6.0	10.2	6.69	0.3	11.60	7.95
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*								
Estonia	-4.2 Sep	-3.3 Sep	-11.9	12.0	10.7	-1.0	7.07	na
Finland	+11.4 Oct	+10.0 Sep	+3.8	0.77	0.68	4.5	3.42	3.83
Iceland	-0.7 Nov	-5.4 Q3	-17.3	117	60.8	0.3	18.44	na
Ireland	+39.9 Sep	-15.8 Q2	-2.6	0.77	0.68	-6.5	3.38	4.36
Latvia	-6.4 Sep	-5.3 Sep	-15.0	0.55	0.48	-1.5	12.33	na
Lithuania	-7.7 Oct	-6.7 Sep	-13.9	2.66	2.35	-0.9	8.96	na
Luxembourg	-7.5 Sep	+5.1 Q2	na	0.77	0.68	0.3	3.38	na
New Zealand	-3.7 Oct	-11.4 Q2	-7.1	1.82	1.27	0.3	5.20	4.75
Peru	+5.5 Sep	-3.0 Q3	-2.8	3.11	2.97	2.7	6.50	na
Philippines	-8.6 Sep	+4.3 Jun	+1.8	48.3	41.3	-0.9	5.00	na
Portugal	-34.1 Sep	-28.7 Sep	-9.7	0.77	0.68	-2.4	3.38	4.10
Slovakia	-0.8 Sep	-5.9 Aug	-5.6	23.2	22.6	-2.2	1.83	4.21
Slovenia	-4.6 Sep	-3.4 Sep	-6.6	0.77	0.68	0.4	3.38	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

Markets

Dec 11th 2008
From The Economist print edition

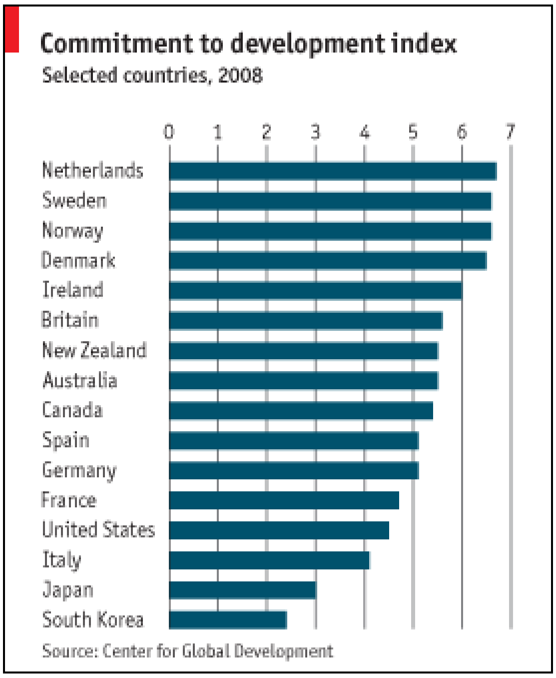
Markets

	Index Dec 10th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	8,761.4	+2.0	-33.9	-33.9
United States (S&P 500)	899.2	+3.3	-38.8	-38.8
United States (NAScomp)	1,565.5	+4.9	-41.0	-41.0
Japan (Nikkei 225)	8,660.2	+8.2	-43.4	-31.9
Japan (Topix)	834.6	+4.4	-43.4	-31.9
China (SSEA)	2,183.4	+5.8	-60.5	-57.9
China (SSEB, $ terms)	121.7	+4.5	-68.8	-66.8
Britain (FTSE 100)	4,367.3	+4.7	-32.4	-49.6
Canada (S&P TSX)	8,634.0	+4.1	-37.6	-51.2
Euro area (FTSE Euro 100)	757.4	+5.2	-44.9	-51.1
Euro area (DJ STOXX 50)	2,495.6	+5.3	-43.3	-49.6
Austria (ATX)	1,795.2	+5.0	-60.2	-64.7
Belgium (Bel 20)	1,906.2	+3.2	-53.8	-59.0
France (CAC 40)	3,320.3	+4.9	-40.9	-47.5
Germany (DAX)*	4,804.9	+5.2	-40.4	-47.1
Greece (Athex Comp)	1,833.0	-0.1	-64.6	-68.6
Italy (S&P/MIB)	19,830.0	+3.7	-48.6	-54.3
Netherlands (AEX)	256.2	+5.8	-50.3	-55.9
Spain (Madrid SE)	975.9	+3.0	-40.6	-47.2
Czech Republic (PX)	869.2	+6.1	-52.1	-56.2
Denmark (OMXCB)	240.2	+2.1	-46.5	-52.4
Hungary (BUX)	12,835.4	+2.3	-51.1	-58.4
Norway (OSEAX)	259.9	+2.0	-54.4	-64.7
Poland (WIG)	28,310.7	+6.3	-49.1	-58.9
Russia (RTS, $ terms)	656.1	+8.8	-67.5	-71.4
Sweden (Aff.Gen)	203.9	+6.9	-40.1	-52.3
Switzerland (SMI)	5,751.9	+2.6	-32.2	-36.0
Turkey (ISE)	24,034.7	+0.4	-56.7	-67.5
Australia (All Ord.)	3,573.3	+2.8	-44.3	-58.3
Hong Kong (Hang Seng)	15,577.7	+14.6	-44.0	-43.6
India (BSE)	9,654.9	+10.4	-52.4	-61.7
Indonesia (JSX)	1,315.9	+10.3	-52.1	-58.8
Malaysia (KLSE)	854.7	+0.8	-40.9	-45.9
Pakistan (KSE)	9,187.1	nil	-34.7	-48.9
Singapore (STI)	1,821.7	+11.0	-47.4	-49.6
South Korea (KOSPI)	1,145.9	+12.0	-39.6	-59.4
Taiwan (TWI)	4,658.9	+8.2	-45.2	-46.9
Thailand (SET)	423.8	+7.9	-50.6	-53.0
Argentina (MERV)	1,060.9	+9.5	-50.7	-54.6
Brazil (BVSP)	39,004.0	+10.5	-38.9	-55.3
Chile (IGPA)	11,139.0	+0.2	-20.9	-40.8
Colombia (IGBC)	7,679.1	+4.0	-28.2	-37.2
Mexico (IPC)	21,689.8	+7.7	-26.6	-40.6
Venezuela (IBC)	33,949.4	-1.7	-10.4	-60.7
Egypt (Case 30)	4,202.3	+5.6	-59.9	-59.9
Israel (TA-100)	627.3	+11.2	-45.7	-46.7
Saudi Arabia (Tadawul)‡	4,654.9	nil	-57.8	-57.8
South Africa (JSE AS)	21,930.9	+14.7	-24.3	-49.0
Europe (FTSEurofirst 300)	860.2	+3.7	-42.9	-49.3
World, dev'd (MSCI)	899.1	+4.5	-43.4	-43.4
Emerging markets (MSCI)	562.4	+11.7	-54.8	-54.8
World, all (MSCI)	222.8	+5.2	-44.8	-44.8
World bonds (Citigroup)	770.0	+0.3	+5.4	+5.4
EMBI+ (JPMorgan)	368.6	+2.2	-15.0	-15.0
Hedge funds (HFRX)§	1,028.2	nil	-22.7	-22.7
Volatility, US (VIX)	55.7	60.7	22.5	(levels)
CDSs, Eur (iTRAXX)†	194.0	+0.4	+283.3	+240.5
CDSs, N Am (CDX)†	282.0	+1.3	+262.0	+262.0
Carbon trading (EU ETS) €	15.2	-3.8	-33.2	-40.7

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡Dec 3rd. §Dec 9th.

Commitment to development index

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America ranks 17th out of 22 rich countries in its commitment to fostering prosperity in the developing world, according to the Center for Global Development, a think-tank in Washington, DC. The Netherlands, Sweden, Norway and Denmark take the top four spots thanks to the generosity of their foreign aid relative to the size of their economies. But aid is not all that matters. Countries such as Australia, New Zealand and Canada score well by dint of good trade and security policies. Environmental, technology and migration policies count too. America's relatively low trade barriers, the generosity of its citizens' private aid flows, and policies promoting pro-poor technologies save it from last place.